XIAOMI CORPORATION
小米集团

(A company controlled through weighted voting rights and incorporated in the Cayman Islands with limited liability)

(Stock Code: 1810)

(1) PROPOSED ISSUE OF US$ DENOMINATED SENIOR NOTES TO BE UNCONDITIONALLY AND IRREVOCABLY GUARANTEED BY THE COMPANY AND (2) AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019

(1) THE PROPOSED NOTES ISSUE

The Issuer, a wholly-owned subsidiary of the Company, proposes to conduct an international offering of the Notes to professional investors only. The Notes are proposed to be unconditionally and irrevocably guaranteed by the Company.

Completion of the Proposed Notes Issue is subject to, among others, market conditions and investor interest. As at the date of this announcement, the principal amount, the interest rate, the payment date and certain other terms and conditions of the Notes have yet to be finalized. Upon finalizing the terms of the Notes, it is expected that the Issuer, the Company, the Joint Global Coordinators, Joint Lead Managers and Joint Bookrunners and other initial purchasers (if any) will enter into a purchase agreement.

The Notes and the related guarantee by the Company have not been, and will not be, registered under the U.S. Securities Act. Accordingly, the Notes will be offered or sold in the U.S. only to Qualified Institutional Buyers, as defined in and in reliance on Rule 144A under the U.S. Securities Act, or outside the U.S. in accordance with Regulation S under the U.S. Securities Act. None of the Notes will be offered to the public in Hong Kong.

No PRIIPs KID — No PRIIPs key information document has been prepared as the Notes will not be available to retail investors in the European Economic Area and the United Kingdom.

Reason for the Proposed Notes Issue

The Group intends to use the net proceeds of the Proposed Notes Issue primarily for (i) general corporate purposes and (ii) to repay existing borrowings. The Group may reallocate the use of the net proceeds in response to unforeseen events or changing business conditions.

Listing

Application will be made to the Stock Exchange for listing of, and permission to deal in, the Notes by way of debt issue to professional investors only. Listing of the Notes on the Stock Exchange is not to be taken as an indication of the merits of the Notes, the Issuer or the Company.

(2) AUDITED FINANCIAL STATEMENTS OF THE COMPANY

In connection with the Proposed Notes Issue, the Company will provide certain professional investors with recent financial information as extracted from the audited consolidated financial statements of the Company for the year ended December 31, 2019 (the "**Audited Financial Statements**"). To ensure equal dissemination of information to the shareholders of the Company and public investors, the Audited Financial Statements are attached to this announcement.

GENERAL

As no binding agreement in relation to the Proposed Notes Issue has been entered into as at the date of this announcement, the Proposed Notes Issue may or may not materialize. Potential investors and shareholders of the Company are advised to exercise caution when dealing in the securities of the Company. Further announcement in respect of the Proposed Notes Issue will be made by the Company as and when appropriate.

DEFINITIONS

In this announcement, unless otherwise indicated in the context, the following expressions have the meanings set out below:

"Board"	:	the board of Directors
"Company"	:	Xiaomi Corporation, a limited liability company incorporated in the Cayman Islands, the Class B shares of which are listed on the Stock Exchange (Stock Code: 1810)
"connected person(s)"	:	has the meaning ascribed to it under the Listing Rules
"Director(s)"	:	the director(s) of the Company
"Group"	:	the Company and its subsidiaries
"Hong Kong"	:	the Hong Kong Special Administrative Region of the People's Republic of China
"Issuer"	:	Xiaomi Best Time International Limited, a company limited by shares incorporated under the laws of Hong Kong
"Joint Global Coordinators"	:	Goldman Sachs (Asia) L.L.C., J.P. Morgan Securities plc, Morgan Stanley & Co. International plc and ABCI Capital Limited

"Joint Lead Managers and Joint Bookrunners"	:	Goldman Sachs (Asia) L.L.C., J.P. Morgan Securities plc, Morgan Stanley & Co. International plc, ABCI Capital Limited, AMTD Global Markets Limited, Bank of China (Hong Kong) Limited, Barclays Bank PLC, The Hongkong and Shanghai Banking Corporation Limited and ICBC International Securities Limited
"Listing Rules"	:	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Notes"	:	the US$ denominated senior notes to be issued by the Issuer and unconditionally and irrevocably guaranteed by the Company
"PRIIPs"	:	packaged retail investment and insurance-based products (as defined by Regulation (EU) No. 1286/2014, as amended)
"Proposed Notes Issue"	:	the proposed issue of the Notes
"Stock Exchange"	:	The Stock Exchange of Hong Kong Limited
"subsidiary"	:	has the meaning ascribed to it under the Listing Rules
"U.S." or "United States"	:	the United States of America, its territories and possessions and all areas subject to its jurisdiction
"U.S. Securities Act"	:	the United States Securities Act of 1933, as amended
"US$"	:	United States dollars, the official currency of the U.S.

By order of the Board
Xiaomi Corporation
Lei Jun
Chairman

Hong Kong, April 20, 2020

As at the date of this announcement, the Board comprises Mr. Lei Jun as Chairman and Executive Director, Mr. Lin Bin as Vice-Chairman and Executive Director, Mr. Chew Shou Zi as Executive Director, Mr. Liu Qin as Non-executive Director, and Dr. Chen Dongsheng, Prof. Tong Wai Cheung Timothy and Mr. Wong Shun Tak as Independent Non-executive Directors.

羅兵咸永道

Independent Auditor's Report

To the Shareholders of Xiaomi Corporation
(incorporated in the Cayman Islands with limited liability)

Opinion

What we have audited

The consolidated financial statements of Xiaomi Corporation (the "Company") and its subsidiaries (the "Group") set out on pages 6 to 119, which comprise:

- the consolidated balance sheet as of December 31, 2019;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as of December 31, 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

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Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter identified in our audit is related to the classification and fair value determination for unlisted securities classified as "long-term investments measured at fair value through profit or loss".

Key Audit Matter	How our audit addressed the Key Audit Matter
The classification and fair value determination for unlisted securities classified as "long-term investments measured at fair value through profit or loss" Refer to Note 3.3 and Note 19 to the consolidated financial statements. During the year ended December 31, 2019, the Group recognized fair value changes on the following investments in profits or losses: (i) equity investments in unlisted companies other than those accounted for using equity method, and (ii) convertible redeemable preferred shares or ordinary shares with preferential rights investments in unlisted companies (collectively the "Unlisted Securities"), amounting to RMB2,494,191,000 and RMB13,406,909,000, respectively. The total amount of Unlisted Securities as of December 31, 2019 was RMB15,901,100,000, accounting for 9% of the Group's total assets. The classification and initial recognition of the Unlisted Securities require management to analyze certain complex contract terms and make judgments to determine the classifications of the above financial assets, based on the Group's business models of managing these financial assets and the contractual terms of the cash flows. The Group identified its various rights and evaluated the financial impacts based on key terms from relevant legal documents. Management engaged an external valuer to assist to determine the fair value of these Unlisted Securities. The fair value determination of such Unlisted Securities required management to make judgments and estimates, including the appropriateness of using various unobservable inputs.	We understood and evaluated the key controls over the capturing, measurement and recording of the Unlisted Securities investments. For the classification and initial recognition of the Unlisted Securities, we have performed the following procedures: (1) We checked relevant legal documents such as shareholder agreements, share purchase agreements and articles of association of the investees on a sample basis to understand the commercial rationale for these Unlisted Securities investments; (2) We evaluated management's analysis on contract terms and assessed the reasonableness of management's accounting treatments on a sample basis. For the assessment of fair value determination of the Unlisted Securities, we involved our internal valuation specialists to perform the following procedures: (1) We assessed the objectivity, independence and competence of the external valuer engaged by the Group; (2) We interviewed management and understood the underlying assumptions and inputs used in fair value determination of Unlisted Securities; (3) We assessed the reasonableness of assumptions and inputs used in fair value determination of Unlisted Securities, including expected volatility, risk-free interest rate, discounted for lack of marketability; (4) We recalculated the fair values of Unlisted Securities on a sample basis; and (5) We tested the accuracy of the fair value changes on investments measured at fair value through profit or loss for the year on a sample basis.

Key Audit Matters (Cont'd)

Key Audit Matter	How our audit addressed the Key Audit Matter
We focused on this area due to the significance of the balances of these investments and their related fair value gain or loss for the year, as well as management judgments, assumptions and estimations involved in the initial recognition and fair value determination of the Unlisted Securities.	We found the judgments, assumptions and estimations made by management in relation to the initial recognition and fair value determination of the Unlisted Securities to be supportable based on the available evidences.

Other Information

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and the Audit Committee for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

Independent Auditor's Report (Cont'd)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Cont'd)

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Yuen Kwok Sun.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, March 31, 2020

CONSOLIDATED INCOME STATEMENT

For the year ended December 31, 2019

(Expressed in Renminbi ("RMB"))

	Note	Year ended December 31, 2019	Year ended December 31, 2018
		RMB'000	**RMB'000**
Revenue	6	205,838,682	174,915,425
Cost of sales	8	(177,284,649)	(152,723,486)
Gross profit		28,554,033	22,191,939
Selling and marketing expenses	8	(10,378,073)	(7,993,072)
Administrative expenses	8	(3,103,901)	(12,099,078)
Research and development expenses	8	(7,492,554)	(5,776,826)
Fair value changes on investments measured at fair value through profit or loss	19(iv)	3,813,012	4,430,359
Share of losses of investments accounted for using the equity method	11(b)	(671,822)	(614,920)
Other income	7	1,265,921	844,789
Other (losses)/gains, net		(226,399)	213,281
Operating profit		11,760,217	1,196,472
Finance income, net	10	402,429	216,373
Fair value changes of convertible redeemable preferred shares	35	—	12,514,279
Profit before income tax		12,162,646	13,927,124
Income tax expenses	12	(2,059,696)	(449,377)
Profit for the year		10,102,950	13,477,747
Attributable to:			
- Owners of the Company		10,044,164	13,553,886
- Non-controlling interests		58,786	(76,139)
		10,102,950	13,477,747
Earnings per share (expressed in RMB per share):	13		
Basic		0.423	0.843
Diluted		0.410	0.044

The notes on pages 14 to 119 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2019

(Expressed in RMB)

	Note	Year ended December 31, 2019 RMB'000	2018 RMB'000
Profit for the year		10,102,950	13,477,747
Other comprehensive income/(loss):			
Items that may be reclassified subsequently to profit or loss			
Share of other comprehensive income of investments accounted for using the equity method	11(b)	9,279	191,449
Currency translation differences		(77,430)	(648,746)
Item that will not be reclassified subsequently to profit or loss			
Currency translation differences		508,584	(1,098,818)
Other comprehensive income/(loss) for the year, net of tax		440,433	(1,556,115)
Total comprehensive income for the year		10,543,383	11,921,632
Attributable to:			
- Owners of the Company		10,472,914	11,989,243
- Non-controlling interests		70,469	(67,611)
		10,543,383	11,921,632

The notes on pages 14 to 119 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

As of December 31, 2019
(Expressed in RMB)

	Note	As of December 31, 2019 RMB'000	2018 RMB'000
Assets			
Non-current assets			
Land use rights		—	3,402,968
Property and equipment	14	6,992,331	5,068,053
Intangible assets	15	1,672,002	2,061,192
Investments accounted for using the equity method	11(b)	9,300,507	8,639,238
Long-term investments measured at fair value through profit or loss	19	20,679,363	18,636,208
Deferred income tax assets	34	1,283,415	1,312,245
Other non-current assets	17	6,162,503	95,485
		46,090,121	39,215,389
Current assets			
Inventories	23	32,585,438	29,480,685
Trade receivables	21	6,948,567	5,598,443
Loan receivables	20	12,723,503	10,293,645
Prepayments and other receivables	22	19,837,018	20,914,946
Short-term investments measured at fair value through profit or loss	19	16,463,390	6,648,526
Short-term bank deposits	24(c)	21,523,043	1,365,991
Restricted cash	24(b)	1,538,266	1,480,178
Cash and cash equivalents	24(a)	25,919,861	30,230,147
		137,539,086	106,012,561
Total assets		183,629,207	145,227,950

CONSOLIDATED BALANCE SHEET (Cont'd)

As of December 31, 2019
(Expressed in RMB)

	Note	As of December 31, 2019 RMB'000	As of December 31, 2018 RMB'000
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital	25	388	377
Reserves		81,330,186	71,322,608
		81,330,574	71,322,985
Non-controlling interests		327,102	(72,856)
Total equity		81,657,676	71,250,129
Liabilities			
Non-current liabilities			
Borrowings	33	4,786,856	7,856,143
Deferred income tax liabilities	34	579,902	777,645
Warranty provision		667,857	559,016
Other non-current liabilities	29	3,756,211	2,844,859
		9,790,826	12,037,663
Current liabilities			
Trade payables	30	59,527,940	46,287,271
Other payables and accruals	31	9,101,343	6,312,770
Advance from customers	32	8,237,119	4,479,522
Borrowings	33	12,836,555	3,075,194
Income tax liabilities		479,350	661,816
Warranty provision		1,998,398	1,123,585
		92,180,705	61,940,158
Total liabilities		101,971,531	73,977,821
Total equity and liabilities		183,629,207	145,227,950

The consolidated financial statements on pages 6 to 119 were approved by the Board of Directors on March 31, 2020 and were signed on its behalf:

Lei Jun

Lin Bin

The notes on pages 14 to 119 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2019
(Expressed in RMB)

	Note	Attributable to owners of the Company						Non-controlling interests	Total equity
		Share capital	Treasury shares	Share premium	Other reserves (Note 26)	Retained earnings	Sub-total		
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at January 1, 2019		377	—	43,851,282	6,447,415	21,023,911	71,322,985	(72,856)	71,250,129
Comprehensive income									
Profit for the year		—	—	—	—	10,044,164	10,044,164	58,786	10,102,950
Other comprehensive income									
Items that may be reclassified subsequently to profit or loss									
Share of other comprehensive income of investments accounted for using the equity method	11(b)	—	—	—	9,279	—	9,279	—	9,279
Currency translation differences	26	—	—	—	(89,113)	—	(89,113)	11,683	(77,430)
Item that will not be reclassified subsequently to profit or loss									
Currency translation differences	26	—	—	—	508,584	—	508,584	—	508,584
Total comprehensive income		—	—	—	428,750	10,044,164	10,472,914	70,469	10,543,383
Transactions with owners in their capacity as owners									
Purchase of own shares	25	—	(2,932,111)	—	—	—	(2,932,111)	—	(2,932,111)
Cancelation of shares	25	1	1,879,289	(1,882,527)	—	—	(3,237)	—	(3,237)
Release of ordinary shares from Share Scheme Trusts	25	1	—	167,447	(139,015)	—	28,433	—	28,433
Share of other reserves of investments accounted for using the equity method	11(b)	—	—	—	229,740	—	229,740	—	229,740
Employees share-based compensation scheme:									
- value of employee services	28	—	—	—	2,127,878	—	2,127,878	89	2,127,967
- exercise of share options and restricted stock units	28	9	—	1,442,634	(1,184,767)	—	257,876	—	257,876
Capital injection from non-controlling interests		—	—	—	—	—	—	155,496	155,496
Acquisition of additional equity interests in non-wholly owned subsidiaries	11(a)	—	—	—	(173,904)	—	(173,904)	173,904	—
Appropriation to statutory reserves	26	—	—	—	295,047	(295,047)	—	—	—
Appropriation to general reserves	26	—	—	—	2	(2)	—	—	—
Total transactions with owners in their capacity as owners		11	(1,052,822)	(272,446)	1,154,981	(295,049)	(465,325)	329,489	(135,836)
Balance at December 31, 2019		388	(1,052,822)	43,578,836	8,031,146	30,773,026	81,330,574	327,102	81,657,676

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Cont'd)

For the year ended December 31, 2019
(Expressed in RMB)

	Note	Attributable to owners of the Company					Non-controlling interests	Total equity
		Share capital	Share premium	Other reserves (Note 26)	Accumulated losses/ retained earnings	Sub-total		
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at January 1, 2018		150	742,760	947,420	(128,962,691)	(127,272,361)	61,670	(127,210,691)
Comprehensive income								
Profit for the year		—	—	—	13,553,886	13,553,886	(76,139)	13,477,747
Other comprehensive income								
Items that may be reclassified subsequently to profit or loss								
Share of other comprehensive income of investments accounted for using the equity method	11(b)	—	—	191,449	—	191,449	—	191,449
Currency translation differences	26	—	—	(657,274)	—	(657,274)	8,528	(648,746)
Item that will not be reclassified subsequently to profit or loss								
Currency translation differences	26	—	—	(1,098,818)	—	(1,098,818)	—	(1,098,818)
Total comprehensive income		—	—	(1,564,643)	13,553,886	11,989,243	(67,611)	11,921,632
Transactions with owners in their capacity as owners								
Issuance of ordinary shares	25	11	9,827,146	—	—	9,827,157	—	9,827,157
Issuance of ordinary shares relating to initial public offering, net of underwriting commissions and other issuance costs	25	27	23,248,593	—	—	23,248,620	—	23,248,620
Release of ordinary shares from Share Scheme Trust	25	15	933,592	(841,640)	—	91,967	—	91,967
Conversion of convertible redeemable preferred shares to ordinary shares	35	174	151,100,334	—	—	151,100,508	—	151,100,508
Share of other reserves of investments accounted for using the equity method	11(b)	—	—	62,657	—	62,657	—	62,657
Employees share-based compensation scheme:								
- value of employee services	28	—	—	2,358,720	—	2,358,720	102,805	2,461,525
Acquisition of additional equity interests in non-wholly owned subsidiaries		—	230,899	(152,071)	(162,046)	(83,218)	(171,220)	(254,438)
Appropriation to statutory reserves	26	—	—	57,808	(57,808)	—	—	—
Share premium set off the accumulated losses and other reserves	25	—	(142,232,042)	5,579,472	136,652,570	—	—	—
Others		—	—	(308)	—	(308)	1,500	1,192
Total transactions with owners in their capacity as owners		227	43,108,522	7,064,638	136,432,716	186,606,103	(66,915)	186,539,188
Balance at December 31, 2018		377	43,851,282	6,447,415	21,023,911	71,322,985	(72,856)	71,250,129

The notes on pages 14 to 119 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2019

(Expressed in RMB)

	Note	Year ended December 31, 2019	2018
		RMB'000	RMB'000
Cash flows from operating activities			
Cash generated from operations	36(a)	25,952,239	122,171
Income tax paid		(2,141,885)	(1,536,742)
Net cash generated from/(used in) operating activities		23,810,354	(1,414,571)
Cash flows from investing activities			
Capital expenditures		(3,405,163)	(3,785,259)
Proceeds from disposal of property and equipment	36(b)	67,735	27,367
Placement of short-term bank deposits		(25,728,849)	(2,060,799)
Withdrawal of short-term bank deposits		5,525,882	903,504
Placement of long-term bank deposits		(590,157)	—
Purchase of short-term investments measured at fair value through profit or loss		(134,409,027)	(140,955,400)
Receipt from maturity of short-term investments measured at fair value through profit or loss		124,632,553	139,154,171
Purchase of short-term investments measured at amortized cost		—	(3,500,000)
Receipt from maturity of short-term investments measured at amortized cost		—	4,300,000
Interest income received		864,226	489,816
Investment income received		386,461	335,695
Purchase of long-term investments measured at fair value through profit or loss		(3,987,225)	(1,999,752)
Proceeds from disposal of long-term investments measured at fair value through profit or loss		4,846,175	304,999
Purchase of investments accounted for using the equity method		(200,000)	(793,595)
Proceeds from disposal of investments accounted for using the equity method		80,048	—
Disposal of a subsidiary		—	(25,655)
Acquisition of a subsidiary, net of cash acquired		—	(34,936)
Dividends received		347,205	131,804
Net cash used in investing activities		(31,570,136)	(7,508,040)

CONSOLIDATED STATEMENT OF CASH FLOWS (Cont'd)

For the year ended December 31, 2019
(Expressed in RMB)

	Note	Year ended December 31, 2019	2018
		RMB'000	RMB'000
Cash flows from financing activities			
Proceeds from borrowings		17,036,724	10,269,415
Repayment of borrowings		(10,417,425)	(10,505,637)
Finance expenses paid		(218,994)	(243,966)
Placement of restricted cash		—	(4,152,345)
Withdrawal of restricted cash		75,773	5,059,245
Payment for acquisition of non-controlling interests in a non-wholly owned subsidiary		(187,000)	(165,000)
Proceeds from fund investors		—	2,781,000
Net proceeds from issuance of ordinary shares relating to the initial public offering		—	23,248,620
Net proceeds from exercise of share options		186,838	—
Payments for shares repurchase		(2,932,111)	—
Payment of lease liabilities		(578,063)	—
Capital contribution from non-controlling interests		155,496	—
Proceeds from release of ordinary shares from Share Scheme Trust		—	91,967
Others		—	190,873
Net cash generated from financing activities		3,121,238	26,574,172
Net (decrease)/increase in cash and cash equivalents		(4,638,544)	17,651,561
Cash and cash equivalents at the beginning of the year	24(a)	30,230,147	11,563,282
Effects of exchange rate changes on cash and cash equivalents		328,258	1,015,304
Cash and cash equivalents at the end of the year	24(a)	25,919,861	30,230,147

The notes on pages 14 to 119 are an integral part of these consolidated financial statements.

1 General information

Xiaomi Corporation (formerly known as Top Elite Limited) (the "Company"), was incorporated in the Cayman Islands on January 5, 2010 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company's registered office is at the offices of Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries, including controlled structured entities (together, the "Group") are principally engaged in development and sales of smartphones, internet of things ("IoT") and lifestyle products, provision of internet services and investments holding in the People's Republic of China and other countries or regions.

Lei Jun is the ultimate controlling shareholder of the Company as of the date of approval of these consolidated financial statements.

The regulations in mainland China restrict foreign ownership of companies that provide internet services, e-commerce and value-added telecommunications services, etc., which include certain activities and services operated by the Group. In order to enable certain foreign companies to make investments into these businesses of the Group, the Company controls certain subsidiaries through contractual arrangements. On August 25, 2010, a wholly owned subsidiary of the Company, Xiaomi Communications Co., Ltd. ("Xiaomi Communications", a wholly foreign-owned enterprise) had entered into a series of contractual arrangements (the "Contractual Arrangements") with Xiaomi Inc. and its equity holders, which enable Xiaomi Communications and the Group to:

- govern the financial and operating policies of Xiaomi Inc.;
- exercise equity holders' voting rights of Xiaomi Inc.;
- receive substantially all of the economic interest returns generated by Xiaomi Inc. in consideration for the business support, technical and consulting services provided by Xiaomi Communications;
- obtain an irrevocable and exclusive right to purchase all or part of the equity interests in Xiaomi Inc. from the respective equity holders at a minimum purchase price when it is permitted under laws and regulations in mainland China. Xiaomi Communications may exercise such options at any time until it has acquired all equity interests of Xiaomi Inc.; and
- obtain a pledge over the entire equity interests of Xiaomi Inc. from its respective equity holders as collateral security for all of Xiaomi Inc.'s payments due to Xiaomi Communications and to secure performance of Xiaomi Inc.'s obligation under the Contractual Arrangements.

As a result of the Contractual Arrangements, the Group has rights to exercise power over Xiaomi Inc. and its subsidiaries, receives variable returns from its involvement in Xiaomi Inc. and its subsidiaries, has the ability to affect those returns through its power over Xiaomi Inc. and its subsidiaries and is considered to control Xiaomi Inc. and its subsidiaries. Consequently, the Company regards Xiaomi Inc. and its subsidiaries as controlled structured entities and consolidated the assets, liabilities and results of operations of Xiaomi Inc. and its subsidiaries in the consolidated financial information of the Group.

Nevertheless, the Contractual Arrangements may not be as effective as direct legal ownership in providing the Group with direct control over Xiaomi Inc. and its subsidiaries. Uncertainties presented by the legal system in mainland China could impede the Group's beneficiary rights of the results, assets and liabilities of Xiaomi Inc. and its subsidiaries. The directors of the Company, based on the advice of its legal counsel, consider that the Contractual Arrangements among Xiaomi Communications, Xiaomi Inc. and its equity holders are in compliance with the relevant laws and regulations in mainland China and are legally binding and enforceable.

1 General information (Cont'd)

Other Contractual Arrangements were also executed for other operating companies in mainland China established by the Group similar to Xiaomi Inc. subsequently. All of these operating companies are treated as controlled structured entities of the Company and their financial statements have also been consolidated by the Company. See details in Note 11(a).

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied throughout all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs") issued by International Accounting Standards Board ("IASB") and disclosure requirements of the Hong Kong Companies Ordinance.

The consolidated financial statements of the Group have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities which are carried at fair value.

The preparation of consolidated financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

(a) New and amended standards adopted by the Group

The following new and amended standards, and annual improvements are mandatory for the first time for the Group's financial year beginning on January 1, 2019 and are applicable for the Group:

- IFRS 16 Leases ("IFRS 16")
- IFRIC 23 Uncertainty over income tax treatments
- Amendments to IAS 19 Employee benefits on plan amendment, curtailment or settlement
- Amendments to IFRS Annual Improvements to IFRSs Standards 2015-2017 Cycle
- Amendments to IAS 28 Long-term interests in associates and joint ventures
- Amendment to IFRS 9 Prepayment features with negative compensation

The adoption of these interpretation and amendments to standards has had no significant impact on the results and the financial position of the Group other than IFRS 16, details of which are set out in Note 2.2.

(b) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for the year ended December 31, 2019 and have not been early adopted by the Group. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

2 Summary of significant accounting policies (Cont'd)

2.2 Changes in accounting policies

This note explains the impact of the adoption of IFRS 16 on the Group's consolidated financial statements.

As indicated in Note 2.1, the Group has adopted IFRS 16 from January 1, 2019. The Group has applied IFRS 16 using the simplified transition approach and has not restated comparatives for the 2018 reporting period as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognized in the opening balance sheet on January 1, 2019. The new accounting policies are disclosed in Note 2.33.

On adoption of IFRS 16, the Group recognized lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of January 1, 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 5.16% per annum.

All right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the consolidated balance sheet immediately before the adoption of the IFRS 16. As a result of the adoption of IFRS 16, as of January 1, 2019, the Group recognized a right-of-use asset of RMB4,281,939,000 in other non-current assets, and lease liabilities of RMB285,402,000 and RMB573,431,000 in other payables and accruals and other non-current liabilities, respectively. The impact on transition also included a decrease of RMB52,987,000 in prepayments and other receivables, a decrease of RMB3,389,731,000 in land use rights and a decrease of RMB19,612,000 in other payables and accruals as a result of the adjustment of prepaid or accrued lease payments. On adoption of IFRS 16, the Group reclassified the land use rights to right-of-use assets, which represent the prepaid operating lease payments.

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- account for operating leases with a remaining lease term of less than 12 months as of January 1, 2019 in the same way as short-term leases; and
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application.

The reconciliation between the operating lease commitments disclosed as of December 31, 2018 and the lease liability recognized as of January 1, 2019 is as follows:

	RMB'000
Operating lease commitments disclosed as of December 31, 2018	1,029,240
Discounted using the Group's incremental borrowing rate of 5.16%	979,755
Less: short-term leases recognized on a straight-line basis as expense	(258,968)
Add: adjustments as a result of a different treatment of extension and termination options and others	138,046
Lease liabilities recognized as of January 1, 2019	858,833

In addition, upon adoption of IFRS 16, principal elements of lease payments and related interest portion have been classified within financing activities in the consolidated statement of cash flows.

2 Summary of significant accounting policies (Cont'd)

2.3 Subsidiaries

2.3.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intra-group transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

(a) Subsidiaries controlled through Contractual Arrangements

There are entities controlled by the Group under Contractual Arrangements. The Group does not have legal ownership in equity of these structured entities or their subsidiaries. Nevertheless, under Contractual Arrangements entered into with the registered owners of these structured entities, the Company and its other legally owned subsidiaries control these companies by way of controlling the voting rights, governing their financial and operating policies, appointing or removing the majority of the members of their controlling authorities, and casting the majority of votes at meetings of such authorities. Accordingly, the Group has rights to exercise power over these structured entities, receives variable returns from its involvement in these structured entities, and has the ability to affect those returns through its power over these structured entities. As a result, they are presented as controlled structured entities of the Group, and their assets, liabilities and results are consolidated in the Group's consolidated financial statements.

2 Summary of significant accounting policies (Cont'd)

2.3 Subsidiaries (Cont'd)

2.3.1 Consolidation (Cont'd)

(b) Business combination

The Group applies the acquisition method to account for business combinations except for business combination under common control. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date; any gains or losses arising from such remeasurement are recognized in profit or loss.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with IFRS 9 in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net assets of the business acquired in the case of a bargain purchase, the difference is recognized directly in the profit or loss.

An acquisition of a business which is a business combination under common control is accounted for in a manner similar to a uniting of interests whereby the assets and liabilities acquired are accounted for at carryover predecessor values to the other party to the business combination within all periods presented as if the operations of the Group and the business acquired have always been combined. The difference between the consideration paid by the Group and the net assets or liabilities of the business acquired is adjusted against equity.

(c) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions—that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

2 Summary of significant accounting policies (Cont'd)

2.3 Subsidiaries (Cont'd)

2.3.1 Consolidation (Cont'd)

(d) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. It means the amounts previously recognized in other comprehensive income ("OCI") are reclassified to profit or loss, or transferred to another category of equity as specified/permitted by applicable IFRSs.

2.3.2 Separate financial statements

Investments in subsidiaries (including controlled structured entities) are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial information of the investee's net assets including goodwill.

2.4 Associates

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

(a) Investments in associates in the form of ordinary shares

Investments in associates in the form of ordinary shares are accounted for using the equity method of accounting in accordance with IAS 28 "Investments in Associates and Joint Ventures". Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investments in these associates include goodwill identified on acquisition, net of any accumulated impairment loss. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

If the ownership interest in an associate in the form of ordinary shares is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income is reclassified to consolidated income statement where appropriate.

2 Summary of significant accounting policies (Cont'd)

2.4 Associates (Cont'd)

(a) Investments in associates in the form of ordinary shares (Cont'd)

The Group's share of the associates' post-acquisition profit or loss is recognized in the consolidated income statement, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investments in the associate are impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and includes the amount in "other (losses)/gains, net" in the consolidated income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognized in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealized losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gain or losses on dilution of equity interest in associates are recognized in the consolidated income statement.

(b) Investments in associates in the form of ordinary shares with preferential rights or convertible redeemable preferred shares

Investments in associates in the form of ordinary shares with preferential rights or convertible redeemable preferred shares are accounted as financial assets measured at fair value through profit or loss (Note 2.12).

2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ("CODM"). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer that makes strategic decisions.

2.6 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial information of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of the Company is United States dollar ("US$"). The Company's primary subsidiaries were incorporated in mainland China and these subsidiaries considered RMB as their functional currency. As the major operations of the Group are within mainland China, the Group determined to present its consolidated financial statements in RMB (unless otherwise stated).

2 Summary of significant accounting policies (Cont'd)

2.6 Foreign currency translation (Cont'd)

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated income statement. Foreign exchange gains and losses are presented in the consolidated income statement within "other (losses)/gains, net".

Translation differences on non-monetary financial assets and liabilities are recognized in profit or loss as part of the fair value changes.

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting currency translation differences are recognized in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognized in other comprehensive income.

(d) Disposal of foreign operation and partial disposal

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint venture that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the currency translation differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated currency translation differences are re-attributed to non-controlling interests and are not recognized in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in associates or joint ventures that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

2 Summary of significant accounting policies (Cont'd)

2.7 Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation on property and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

– Leasehold improvements	Estimated useful lives or remaining lease terms, whichever is shorter
– Electronic equipment	3 years
– Office equipment	3-5 years
– Buildings	40 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Construction in progress mainly represents office buildings under construction, which is stated at actual construction cost less accumulated impairment losses. Construction in progress is transferred to appropriate categories of property and equipment upon the completion of their respective construction and depreciated over their respective estimated useful lives.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.11).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within "other (losses)/gains, net" in the consolidated income statement.

2.8 Land use rights

Land use rights represent prepayments for the land use rights in mainland China and are stated at cost initially and expensed on a straight-line basis over the periods of the leases.

2.9 Investment properties

Investment properties, principally freehold office buildings, are held for long-term rental yields and are not occupied by the Group. Investment properties are initially measured at cost, including related transaction costs and where applicable borrowing costs. Subsequently, investment properties are stated at cost less accumulated depreciation and accumulated impairment losses (if any). Depreciation is recognized so as to write off the cost of investment properties to their residual values over their estimated useful lives of 40 years by using the straight-line method.

2 Summary of significant accounting policies (Cont'd)

2.10 Intangible assets

(a) Goodwill

Goodwill arises from the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognized immediately as an expense and is not subsequently reversed.

(b) License

License includes third-party payment license and other licenses. Third-party payment license represents the license issued by the People's Republic of China government authorities that enable the Group to operate third-party payment business. Other licenses mainly include the licenses to use certain intellectual properties purchased from third parties. These acquired licenses are shown at historical cost. License that have an indefinite useful life are tested annually for impairment and carried at cost less accumulated impairment losses. Others are amortized over their estimated useful lives of 1 to 10 years using straight-line method.

(c) Trademarks, patents and domain name

Separately acquired trademarks, patents and domain name are shown at historical cost. Trademarks, patents and domain name acquired in a business combination are recognized at fair value at the acquisition date. Trademarks, patents and domain name have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of trademarks, patents and domain name over their estimated useful lives of 1 to 16 years.

(d) Other intangible assets

Other intangible assets mainly include computer software. They are initially recognized and measured at costs incurred to acquire and bring them to use. Other intangible assets are amortized on a straight-line basis over their estimated useful lives, and recorded in amortization within operating expenses in the consolidated income statement.

2 Summary of significant accounting policies (Cont'd)

2.10 Intangible assets (Cont'd)

(e) Research and development expenditures

Research expenditure is recognized as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are capitalized as intangible assets when recognition criteria are fulfilled. These criteria include:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognized as an expense as incurred.

2.11 Impairment of non-financial assets

Intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2 Summary of significant accounting policies (Cont'd)

2.12 Financial assets

2.12.1 Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and
- those to be measured at amortized cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

See Note 18 for details of each type of financial asset.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

2.12.2 Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are recorded in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt investment that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is included in finance income using the effective interest method.

2 Summary of significant accounting policies (Cont'd)

2.12 Financial assets (Cont'd)

2.12.2 Measurement (Cont'd)

Debt instruments (Cont'd)

- Fair value through other comprehensive income ("FVOCI"): Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other (losses)/gains, net. Interest income from these financial assets is included in finance income using the effective interest method. Foreign exchange gains and losses are presented in other (losses)/gains, net.
- Fair value through profit or loss ("FVPL"): Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL and is not part of a hedging relationship is recognized in profit or loss and presented net in the consolidated income statement within other (losses)/gains, net in the period in which it arises.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognized in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognized in the consolidated income statement. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

2 Summary of significant accounting policies (Cont'd)

2.12 Financial assets (Cont'd)

2.12.3 Impairment

The Group has types of financial assets subject to IFRS 9's new expected credit loss model:

- loan receivables from fintech business;
- trade receivables for sales of goods or provision of services; and
- other receivables

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortized cost including loan receivables, and with the exposure arising from financial guarantee contracts. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Note 3.1(b) details how the Group determines whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

Impairment on other receivables is measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

2 Summary of significant accounting policies (Cont'd)

2.12 Financial assets (Cont'd)

2.12.4 Derecognition

Financial assets

The Group derecognizes a financial asset, if the part being considered for derecognition meets one of the following conditions: (i) the contractual rights to receive the cash flows from the financial asset expire; or (ii) the contractual rights to receive the cash flows of the financial asset have been transferred, the Group transfers substantially all the risks and rewards of ownership of the financial asset; or (iii) the Group retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to the eventual recipient in an agreement that meets all the conditions of de-recognition of transfer of cash flows ("pass through" requirements) and transfers substantially all the risks and rewards of ownership of the financial asset.

Where a transfer of a financial asset in its entirety meets the criteria for derecognition, the difference between the two amounts below is recognized in profit or loss:

- the carrying amount of the financial asset transferred; and
- the sum of the consideration received from the transfer and any cumulative gain or loss that has been recognized directly in equity.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognize the asset to the extent of its continuing involvement and recognizes an associated liability.

Asset-backed securities

As part of its operations, the Group securitizes financial assets, generally through the sale of these assets to special purpose vehicles which issue securities to investors. Further details on prerequisites for derecognition of financial assets are set out above. When the securitization of financial assets that qualify for derecognition, the relevant financial assets are derecognized in their entirety and a new financial asset or liabilities is recognized regarding the interest in the unconsolidated securitization vehicles that the Group acquired. When the securitization of financial assets that do not qualify for derecognition, the relevant financial assets are not derecognized, and the consideration paid by third parties are recorded as a financial liability; when the securitization of financial assets that partially qualify for derecognition, the book value of the transferred asset should be recognized between the derecognized portion and the retained portion based on their respective relative fair values, and the difference between the book value of the derecognized portion and the total consideration received from the derecognized portion shall be recorded in profit or loss.

Other financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged, canceled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognized in profit or loss.

2 Summary of significant accounting policies (Cont'd)

2.13 Financial guarantee contracts

Financial guarantee contracts are recognized as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of:

- the amount determined in accordance with the expected credit loss model under IFRS 9 and
- the amount initially recognized less, where appropriate, the cumulative amount of income recognized in accordance with the principles of IFRS 15.

The fair value of financial guarantees is determined based on the present value of the difference in cash flows between the contractual payments required under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

Where guarantees in relation to loans or other payables of associates are provided for no compensation, the fair values are accounted for as contributions and recognized as part of the cost of the investment.

2.14 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, assembly cost and other direct costs. It excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs to completion, applicable variable selling expense and related tax.

2.15 Trade and other receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. Majority of other receivables are amounts due from outsourcing partners for raw material delivered in the ordinary course of business and value-added tax and other tax recoverable. They are generally due for settlement within one year and therefore all classified as current.

Trade and other receivables are recognized initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognized at fair value. The Group holds the trade and other receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortized cost using the effective interest method. See Note 2.12.3 for a description of the Group's impairment policies for trade and other receivables.

2.16 Loan receivables

Loan receivables held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are recognized initially at fair value plus transaction costs that are attributable to the acquisition of the assets and subsequently measured at amortized cost using the effective interest method, less credit loss allowance. Amortized cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is included in the profit or loss. The loss allowance is recognized in profit or loss. See Note 2.12.3 for a description of the Group's impairment policy for loan receivables.

2 Summary of significant accounting policies (Cont'd)

2.17 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

2.18 Share capital

Ordinary shares are classified as equity. Convertible redeemable preferred shares are classified as liabilities (see Note 2.20).

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds.

2.19 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2.20 Convertible redeemable preferred shares

Convertible redeemable preferred shares ("Preferred Shares") issued by the Company are redeemable at the option of the holders at any time commencing on the redemption start date of December 23, 2019. This instrument can be converted into Class B ordinary shares of the Company at the option of a holder after July 3, 2015, or automatically converted into ordinary shares upon occurrence of (i) the closing of a Qualified Public Offering ("QPO"), or (ii) with written consent of holders of more than fifty percent (50%) of the issued and outstanding Series A Preferred Shares, or written consent of holders of more than two thirds (2/3) of the issued and outstanding Preferred Shares (other than Series A Preferred Shares).

The Group designated the Preferred Shares as financial liabilities at fair value through profit or loss. They are initially recognized at fair value. Any directly attributable transaction costs are recognized as finance costs in the consolidated income statement.

Subsequent to initial recognition, the Preferred Shares are carried at fair value with changes in fair value recognized in the consolidated income statement.

The Preferred Shares are classified as non-current liabilities if the Preferred Shares holders cannot demand the Company to redeem the Preferred Shares for at least 12 months after the end of the reporting period.

2 Summary of significant accounting policies (Cont'd)

2.21 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.22 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

2.23 Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

2.24 Current and deferred income tax

The income tax expense for the period comprises current and deferred tax. Income tax is recognized in the consolidated income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the income tax is also recognized in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

2 Summary of significant accounting policies (Cont'd)

2.24 Current and deferred income tax (Cont'd)

(b) Deferred income tax

Inside basis differences

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognized.

Deferred income tax assets are recognized on deductible temporary differences arising from investments in subsidiaries and associates only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilized.

(c) Offsetting

Deferred income tax assets and liabilities are offset where there is a legally enforceable right to offset current income tax assets against current income tax liabilities and where the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2 Summary of significant accounting policies (Cont'd)

2.25 Employee benefits

(a) Pension obligations

The Group operates a mandatory provident fund scheme ("MPF Scheme") for the eligible employees in Hong Kong. The MPF Scheme is a defined contribution scheme, the assets of which are held in separate trustee—administered funds. The Group's contributions to MPF Scheme are expensed as incurred.

The Group's subsidiaries operating in mainland China have to make contribution to staff retirement scheme managed by local government authorities in accordance with the relevant rules and regulations. Contributions to these schemes are charged to the consolidated income statement as and when incurred and not reduced by contributions forfeited by those who leave the plans prior to vesting fully in the contributions. The Group has no legal or constructive obligations to pay further contributions.

(b) Employee leave entitlements

Employee entitlements to annual leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity leave are not recognized until the time of leave.

(c) Bonus plans

The expected cost of bonuses is recognized as a liability when the Group has a present legal or constructive obligation for payment of bonus as a result of services rendered by employees and a reliable estimate of the obligation can be made. Liabilities for bonus plans are expected to be settled within 1 year and are measured at the amounts expected to be paid when they are settled.

2.26 Share-based payment

(a) Equity-settled share-based payment transactions

The Group operates share incentive plan, under which it receives services from employees as consideration for equity instruments (restricted shares units ("RSUs") and options) of the Company. The fair value of the services received in exchange for the grant of the equity instruments (RSUs and options) is recognized as an expense on the consolidated income statement with a corresponding increase in equity.

In terms of the RSUs and options awarded to employees, the total amount to be expensed is determined by reference to the fair value of equity instruments (RSUs and options) granted:

- including any market performance conditions;
- excluding the impact of any service and non-market performance vesting conditions; and
- including the impact of any non-vesting conditions.

Service and non-marketing performance conditions are included in calculation of the number of RSUs and options that are expected to vest. The total amount expensed is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

2 Summary of significant accounting policies (Cont'd)

2.26 Share-based payment (Cont'd)

(a) Equity-settled share-based payment transactions (Cont'd)

At the end of each reporting period, the Group revises its estimates of the number of RSUs and options that are expected to vest based on the non-marketing performance and service conditions. It recognizes the impact of the revision to original estimates, if any, in the consolidated income statement, with a corresponding adjustment to equity.

In some circumstances, employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognizing the expense during the period between service commencement period and grant date.

When the options are exercised, the Company issues new ordinary shares. The proceeds received net of any directly attributable transaction costs are credited to share capital and share premium.

(b) Cash-settled share-based payment transactions

The cost of cash-settled transactions is measured initially at fair value at the grant date. This fair value is with recognition of a corresponding liability. The liability is re-measured at each reporting date up to and at the date of settlement, with any changes in fair value recognized in profit or loss for the year.

2.27 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

(a) Warranty provision

The Group records warranty liabilities at the time of sale for the estimated costs that will be incurred under its basic limited warranty. The specific warranty terms and conditions vary depending upon the product and the country in which it was sold, but generally includes technical support, repair parts and labor associated with warranty repair and service actions. The period ranges from one to six years. The Group revaluates its estimates on an annual basis to assess the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary.

2 Summary of significant accounting policies (Cont'd)

2.28 Revenue recognition

The Group principally derives revenue from sales of products and provision of internet services.

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods sold or services performed, stated net of discounts, returns and value-added taxes. The Group recognizes revenue when the specific criteria have been met for each of the Group's activities, as described below.

(a) Sales of products

Revenue from the sales of products (mainly including smartphones, IoT and lifestyle products) directly to customers, is recognized when control of the goods has been transferred, being when the products are accepted by the customers. The customers have full discretion over the products, and there is no unfulfilled obligation that could affect the customers' acceptance of the products.

Customers in mainland China have an unconditional right to return the products purchased online within 7 days. The Group bases its estimates of sales return on historical results, taking into consideration the type of customers, the type of transactions and the specifics of each arrangement.

(b) Internet services

Internet services mainly comprise advertising services and internet value-added services.

(i) Advertising services

Advertising revenues comprise mainly display-based and performance-based advertisements.

Revenue from display-based advertisements to the users of smartphones and other devices is recognized on a straight-line basis over the contracted period with customers in which the advertisements are displayed.

Revenue from performance-based advertisements is recognized based on actual performance measurement. The Group recognizes the revenue from the delivery of (i) per-click when the users click on the content, (ii) per-impression when the advertising contents are displayed to users, or (iii) per-download when the third parties' apps are downloaded by users.

(ii) Internet value-added services

The Group recognizes the internet value-added services revenue (including online game and fintech business) on a gross or net basis depending on whether the Group is acting as a principal or an agent in the transaction. For online game, the Group also defers the related revenue, over the estimated user relationship periods, given there is an explicit or implicit obligation of the Group to maintain the relevant applications and allow users to have access to them.

Fintech business

The Group's fintech revenues are primarily consist of financial interest income and intermediary services income.

The Group generates financial interest income from provision of loans through its own online internet finance platform. Financial interest income is recognized over the terms of loan receivables using the effective interest method.

2 Summary of significant accounting policies (Cont'd)

2.28 Revenue recognition (Cont'd)

(b) Internet services (Cont'd)

(ii) Internet value-added services (Cont'd)

Fintech business (Cont'd)

The Group also provides intermediary services to the borrowers and third party funding parties (as the lenders). The Group are determined as neither the legal lender nor the legal borrower in the loan origination and repayment process. Therefore, the Group does not record loans receivable and payable arising from the loans between lenders and borrowers. The Group acts as an agent to facilitate such loans. The Group considers the loan facilitation and post-lending management services as distinct performance obligations because both the borrowers and lenders can benefit from the loan facilitation services and post-lending management services on their own, and those services are clearly stated in the contract and are separately identifiable, they are not integrated or interrelated with each other, and do not significantly affect each other. For intermediary services with a financial guarantee obligation, the Group first allocates the total transaction price to the financial guarantee liability, then the remaining consideration is allocated to loan facilitation and post-lending management services on the basis of the relative standalone selling prices, determined by using the cost plus margin approach; for intermediary services with no financial guarantee obligation, the Group allocates the total consideration to loan facilitation and post-lending management services on the basis of the relative standalone selling prices, determined by using the cost plus margin approach. Revenues from loan facilitation services are recognized at point-in-time upon the successful matching between the borrowers and the lenders. Revenues from post-lending management services are recognized ratably over the terms of the underlying loans as the performance obligation is satisfied over time.

Determining whether revenue of the Group should be reported gross or net is based on a continuing assessment of various factors. When determining whether the Group is acting as the principal or agent in offering goods or services to the customer, the Group needs to first identify who controls the specified goods or services before they are transferred to the customer. The Group is a principal if the Group obtains control through any of the following: (i) a good or another asset from the other party that the Group then transfers to the customer; (ii) a right to a service to be performed by the other party, which gives the Group the ability to direct that party to provide the service to the customer on the Group's behalf; (iii) a good or service from the other party that the Group then combines with other goods or services in providing the specified good or service to the customer. If control is unclear, when the Group is primarily obligated in a transaction, is subject to inventory risk, has latitude in establishing prices and selecting suppliers, or has several but not all of these indicators, the Group records revenues on a gross basis. Otherwise, the Group records the net amount earned as commissions from products sold or services provided.

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

2 Summary of significant accounting policies (Cont'd)

2.29 Interest income

Interest income from financial assets at FVPL is included in investment income as part of other income.

Interest income on financial assets at amortized cost calculated using the effective interest method is recognized in the consolidated income statement as part of other income.

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

2.30 Earnings per share

(a) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

(b) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

2.31 Dividend income

Dividends are received from financial assets measured at FVPL and at FVOCI. Dividends are recognized as other income in profit or loss when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits, unless the dividend clearly represents a recovery of part of the cost of an investment. In this case, the dividend is recognized in OCI if it relates to an investment measured at FVOCI. However, the investment may need to be tested for impairment as a consequence.

2 Summary of significant accounting policies (Cont'd)

2.32 Government grants

Grants from government are recognized at their fair value where there is a reasonable assurance that the grants will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognized in the consolidated income statement over the period necessary to match them with the costs that they are intended to compensate. Government grants relating to the property and equipment, and other non-current assets are included in the liabilities and are credited to consolidated income statement on a straight-line basis over the expected lives of the related assets.

2.33 Leases

As explained in Note 2.2 above, the Group has changed its accounting policy for leases where the Group is the lessee. The new policy is described below and the impact of the change in Note 2.2.

Until December 31, 2018, leases of plant and equipment and office where the Group, as lessee, had substantially all the risks and rewards of ownership were classified as finance leases. Finance leases were capitalized at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, were included in other short-term and long-term payables. Each lease payment was allocated between the repayment of lease liability and finance cost. The finance cost was charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property and equipment acquired under finance leases was depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there was no reasonable certainty that the Group will obtain ownership at the end of the lease term. Leases in which a significant portion of the risks and rewards of ownership were retained by the lessor were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to the consolidated income statement on a straight-line basis over the period of the lease.

From January 1, 2019, leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the Group under residual value guarantees
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

2 Summary of significant accounting policies (Cont'd)

2.33 Leases (Cont'd)

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third party financing, and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. The Group has chosen not to revalue its right-of-use assets.

Payments associated with short-term leases of cloud servers are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

Lease income from operating leases where the Group is a lessor is recognized in income on a straight-line basis over the lease term (Note 17). Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognized as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature. The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

3 Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. Risk management is carried out by the senior management of the Group.

(a) Market risk

(i) Foreign exchange risk

The transactions of the Company are denominated and settled in its functional currency, US$. The Group's subsidiaries operate in mainland China and overseas, and they are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to US$ and RMB. Therefore, foreign exchange risk primarily arose from recognized assets and liabilities in the Group's subsidiaries in mainland China when receiving or to receive foreign currencies from, or paying or to pay foreign currencies to overseas business partners, and recognized assets and liabilities in the Group's overseas subsidiaries when receiving or to receive foreign currencies from, or paying or to pay foreign currencies to business partners in mainland China.

For the Group's subsidiaries whose functional currency is RMB, if RMB had strengthened/weakened by 5% against US$ with all other variables held constant, the profit before income tax for the year ended December 31, 2019 would have been approximately RMB28,060,000 lower/higher (2018: RMB148,939,000 higher/lower), as a result of net foreign exchange losses (2018: net foreign exchange gains) on translation of net monetary assets (2018: net monetary liabilities) denominated in US$.

For the Company and the Group's subsidiaries whose functional currency is US$, if RMB had strengthened/ weakened by 5% against US$ with all other variables held constant, the profit before income tax for the year ended December 31, 2019 would have been approximately RMB326,278,000 (2018: RMB213,622,000) lower/ higher, as a result of net foreign exchange losses on translation of net monetary liabilities denominated in RMB.

3 Financial risk management (Cont'd)

3.1 Financial risk factors (Cont'd)

(a) Market risk (Cont'd)

(ii) Interest rate risk

The Group's interest rate risk primarily arose from borrowings with floating and fixed rates (details of which has been disclosed in Note 33), loan receivables, long-term bank deposits, short-term bank deposits and cash and cash equivalents. Those carried at floating rates expose the Group to cash flow interest rate risk whereas those carried at fixed rates expose the Group to fair value interest rate risk.

If the interest rate of borrowings with floating rate had been 50 basis points higher/lower, the profit before income tax for the year ended December 31, 2019 would have been approximately RMB29,537,000 (2018: RMB17,158,000) lower/higher. This analysis does not include the effect of interest capitalized.

If the interest rate of short-term bank deposits had been 50 basis points higher/lower, the profit before income tax for the year ended December 31, 2019 would have been RMB107,615,000 (2018: RMB6,830,000) higher/lower.

If the interest rate of cash and cash equivalents had been 50 basis points higher/lower, the profit before income tax for the year ended December 31, 2019 would have been RMB129,599,000 (2018: RMB151,151,000) higher/lower.

The Group regularly monitors its interest rate risk to ensure there is no undue exposure to significant interest rate movements.

(iii) Price risk

The Group is exposed to price risk in respect of the long-term investments and short-term investments measured at fair value through profit or loss held by the Group. The Group is not exposed to commodity price risk. To manage its price risk arising from the investments, the Group diversifies its portfolio. Each investment is managed by senior management on a case by case basis. The sensitivity analysis is performed by management, see Note 3.3 for detail.

3 Financial risk management (Cont'd)

3.1 Financial risk factors (Cont'd)

(b) Credit risk

The Group is exposed to credit risk in relation to its cash and cash equivalents, long-term bank deposits, short-term bank deposits, restricted cash, short-term investments, loan receivables, trade receivables, other receivables, and financial guarantee contracts. The carrying amounts of each class of the above financial assets represent the Group's maximum exposure to credit risk in relation to financial assets.

To manage risk arising from cash and cash equivalents, long-term bank deposits, short-term bank deposits, restricted cash, short-term investments, the Group only transacts with state-owned or reputable financial institutions in mainland China and reputable international financial institutions outside of mainland China. There has been no recent history of default in relation to these financial institutions.

To manage risk arising from trade receivables, the Group has policies in place to ensure that credit terms are made to counterparties with an appropriate credit history and the management performs ongoing credit evaluations of its counterparties. The credit period granted to the customers is usually no more than 180 days and the credit quality of these customers is assessed, which takes into account their financial position, past experience and other factors.

For other receivables, management makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experiences. In view of the history of cooperation with debtors and the sound collection history of receivables due from them, management believes that the credit risk inherent in the Group's outstanding other receivable balances due from them is not significant.

For the financial guarantee contracts, the Group has taken measures to manage credit risk, including credit examination, fraud examination and risk monitoring alert. The maximum credit risk from financial guarantee contracts is RMB8,142,058,000 as of December 31, 2019 (2018: RMB4,391,098,000), the majority of which are not credit-impaired on initial recognition and no significant increase in credit risk subsequently. The Group has recognized loss allowance for such losses at each of the reporting date.

To manage risk arising from loan receivables, the Group performs standardized credit management procedures. For pre-approval investigation, the Group uses its platform and systems using big data technology to optimize the review process, including credit analysis, assessment of collectability of borrowers, possibility of misconduct and fraudulent activities. In terms of credit examining management, the Group has established specific policies and procedures to assess loans offering. For subsequent monitoring, the Group has implemented credit examination on each borrower every three months. For unqualified borrowers, credit facilities granted previously could be terminated immediately. Once the loan was issued, all borrowers would be assessed by fraud examination model to prevent fraudulent behaviors. In post-loan supervision, the Group has established risk monitoring alert system through periodical monitoring, system alert, and corresponding solutions to identify impaired loans. The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Group measures credit risk using Probability of Default ("PD"), Exposure at Default ("EAD") and Loss Given Default ("LGD"). This is similar to the approach used for the purposes of measuring Expected Credit Loss ("ECL") under IFRS 9.

3 Financial risk management (Cont'd)

3.1 Financial risk factors (Cont'd)

(b) Credit risk (Cont'd)

(b1) Expected credit loss model for loan receivables, as summarized below:

- The loan receivables that are not credit-impaired on initial recognition are classified in 'Stage 1' and have their credit risk continuously monitored by the Group. The expected credit loss is measured on a 12-month basis.
- If a significant increase in credit risk (as defined below) since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. The expected credit loss is measured on lifetime basis.
- If the financial instrument is credit-impaired (as defined below), the financial instrument is then moved to 'Stage 3'. The expected credit loss is measured on lifetime basis.
- In Stages 1 and 2, interest income is calculated on the gross carrying amount (without deducting the loss allowance). If a financial asset subsequently becomes credit-impaired (Stage 3), the Group is required to calculate the interest income by applying the effective interest method in subsequent reporting periods to the amortized cost of the financial asset (the gross carrying amount net of loss allowance) rather than the gross carrying amount.

The impairment of loan receivables was provided based on the 'three-stages' model by referring to the changes in credit quality since initial recognition.

The key judgments and assumptions adopted by the Group in addressing the requirements of the standard are discussed below:

(1) Significant increase in credit risk (SICR)

The Group considers loan receivables to have experienced a significant increase in credit risk when backstop criteria has been met. A backstop is applied and the loan receivables considered to have experienced a significant increase in credit risk if the borrower is more than 1 day past due on its contractual payments.

(2) Definition of default and credit-impaired assets

The Group defines a financial instrument as in default, when the borrower is more than 90 days past due on its contractual payments. This has been applied to all loan receivables held by the Group.

3 Financial risk management (Cont'd)

3.1 Financial risk factors (Cont'd)

(b) Credit risk (Cont'd)

(b1) Expected credit loss model for loan receivables, as summarized below (Cont'd):

(3) Measuring ECL—Explanation of inputs, assumptions and estimation techniques

The expected credit loss is measured on either a 12-month ("12M") or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the PD, EAD and LGD.

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each portfolio. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summarized. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

(4) Forward-looking information incorporated in the ECL models

The calculation of ECL incorporate forward-looking information. The Group has performed historical analysis and identified the per capita disposable income of urban residents as the key economic variables impacting credit risk and expected credit losses.

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Group considers these forecasts to represent its best estimate of the possible outcomes and has analyzed the non-linearities and asymmetries within the Group's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

(5) Grouping of instruments for losses measured on a collective basis

For expected credit loss provisions modeled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous.

(b2) Credit loss allowance

The credit loss allowance recognized in the year is impacted by a variety of factors, as described below:

- Transfers between Stage 1 and Stages 2 or 3 due to loan receivables experiencing significant increases (or decreases) of credit risk in the year, and the subsequent "step up" (or "step down") between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognized, as well as releases for loan receivables derecognized in the year;
- Loan receivables derecognized and write-offs of allowances related to assets that were written off during the year.

3 Financial risk management (Cont'd)

3.1 Financial risk factors (Cont'd)

(b) Credit risk (Cont'd)

(b2) Credit loss allowance (Cont'd)

The following tables explain the changes in the credit loss allowance for loan receivables between the beginning and the end of the year due to these factors:

	Stage 1	Stage 2	Stage 3	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Loss allowance as of January 1, 2019	101,621	89,271	510,973	701,865
Transfers:				
Transfer from Stage 1 to Stage 2	(208)	13,785	—	13,577
Transfer from Stage 1 to Stage 3	(2,114)	—	175,902	173,788
Transfer from Stage 2 to Stage 3	—	(68,890)	146,511	77,621
Change in PDs/LGDs/EADs	17	11	35,593	35,621
Loan receivables derecognized during the year	(98,076)	(21,373)	(183,746)	(303,195)
New loan receivables originated	196,849	387,281	642,015	1,226,145
Write-offs	—	—	(255,685)	(255,685)
Loss allowance as of December 31, 2019	**198,089**	**400,085**	**1,071,563**	**1,669,737**
Loss allowance as of January 1, 2018	122,584	50,757	100,327	273,668
Transfers:				
Transfer from Stage 1 to Stage 2	(74)	2,630	—	2,556
Transfer from Stage 1 to Stage 3	(2,502)	—	168,584	166,082
Transfer from Stage 2 to Stage 1	—	(13)	—	(13)
Transfer from Stage 2 to Stage 3	—	(38,453)	84,121	45,668
Transfer from Stage 3 to Stage 1	—	—	(9)	(9)
Transfer from Stage 3 to Stage 2	—	1	(2)	(1)
Change in PDs/LGDs/EADs	(17)	4	2,711	2,698
Loan receivables derecognized during the year	(108,910)	(15,333)	(25,239)	(149,482)
New loan receivables originated	90,540	89,678	316,746	496,964
Write-offs	—	—	(136,266)	(136,266)
Loss allowance as of December 31, 2018	**101,621**	**89,271**	**510,973**	**701,865**

Significant changes in the gross carrying amount of loan receivables that contributed to changes in the loss allowance were as follows:

The high volume of new loan receivables originated during the year ended December 31, 2019, aligned with the Group's organic growth objective, increased the gross carrying amount of the loan receivables by 126% (2018: 128%) with a corresponding RMB196,849,000 (2018: RMB90,540,000) increase in loss allowance measured on a 12-month basis.

3 Financial risk management (Cont'd)

3.1 Financial risk factors (Cont'd)

(b) Credit risk (Cont'd)

(b2) Credit loss allowance (Cont'd)

The gross carrying amount of the loan receivables explains their significance to the changes in the credit loss allowance as discussed above:

	Stage 1	**Stage 2**	**Stage 3**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Gross carrying amount as of January 1, 2019	10,227,478	207,640	560,392	10,995,510
Transfers:				
Transfer from Stage 1 to Stage 2	(18,538)	18,538	—	—
Transfer from Stage 1 to Stage 3	(188,121)	—	188,121	—
Transfer from Stage 2 to Stage 3	—	(154,171)	154,171	—
Loan receivables derecognized during the year other than write-offs	(10,000,977)	(53,444)	(199,724)	(10,254,145)
New loan receivables originated	12,713,842	514,412	679,306	13,907,560
Write-offs	—	—	(255,685)	(255,685)
Gross carrying amount as of December 31, 2019	**12,733,684**	**532,975**	**1,126,581**	**14,393,240**
Gross carrying amount as of January 1, 2018	8,172,340	133,327	112,494	8,418,161
Transfers:				
Transfer from Stage 1 to Stage 2	(5,381)	5,381	—	—
Transfer from Stage 1 to Stage 3	(183,244)	—	183,244	—
Transfer from Stage 2 to Stage 1	25	(25)	—	—
Transfer from Stage 2 to Stage 3	—	(91,436)	91,436	—
Transfer from Stage 3 to Stage 1	10	—	(10)	—
Transfer from Stage 3 to Stage 2	—	3	(3)	—
Loan receivables derecognized during the year other than write-offs	(7,976,884)	(41,810)	(28,232)	(8,046,926)
New loan receivables originated	10,220,612	202,200	353,886	10,776,698
Write-offs	—	—	(152,423)	(152,423)
Gross carrying amount as of December 31, 2018	**10,227,478**	**207,640**	**560,392**	**10,995,510**

There is no originated credit-impaired loan receivables of the Group during the year.

3 Financial risk management (Cont'd)

3.1 Financial risk factors (Cont'd)

(b) Credit risk (Cont'd)

(b3) Write-off policy

The Group writes off loan receivables, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include ceasing enforcement activity.

The Group may write off loan receivables that are still subject to enforcement activity. The outstanding contractual amounts of loan receivables written off during the year ended December 31, 2019 was RMB255,685,000 (2018: RMB152,423,000). The Group still seeks to recover amounts it is legally owed in full, but which have been written off due to no reasonable expectation of full recovery.

(b4) Modification

The Group rarely modifies the terms of loans provided to customers due to commercial renegotiations, or for distressed loans, with a view to maximizing recovery. The Group considers the impact from such modification is not significant.

3 Financial risk management (Cont'd)

3.1 Financial risk factors (Cont'd)

(c) Liquidity risk

The Group aims to maintain sufficient cash and cash equivalents. Due to the dynamic nature of the underlying business, the policy of the Group is to regularly monitor the Group's liquidity risk and to maintain adequate cash and cash equivalents or adjust financing arrangements to meet the Group's liquidity requirements. There are loan covenants terms for certain borrowings. As of December 31, 2019, there is no non-compliance with such loan covenants (2018: Nil).

The table below analyzes the Group's non-derivative financial liabilities and off-balance sheet guarantee liabilities into relevant maturity grouping based on the remaining year at each balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year	Between 1 year and 2 years	Between 2 years and 5 years	Over 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Group					
At December 31, 2019					
Borrowings	12,836,555	3,176,000	1,074,448	536,408	17,623,411
Trade payables	59,527,940	—	—	—	59,527,940
Other payables	6,175,923	166,065	355,915	392,040	7,089,943
Lease liabilities	414,687	204,959	275,879	108,590	1,004,115
Investment from fund investors	—	—	—	3,074,210	3,074,210
Off-balance sheet guarantee liabilities	7,893,941	—	—	—	7,893,941
At December 31, 2018					
Borrowings	3,075,194	6,145,202	450,308	1,260,633	10,931,337
Trade payables	46,287,271	—	—	—	46,287,271
Other payables	5,312,834	206,488	201,689	217,965	5,938,976
Investment from fund investors	—	—	—	2,823,504	2,823,504
Off-balance sheet guarantee liabilities	4,325,961	—	—	—	4,325,961

3 Financial risk management (Cont'd)

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to enhance shareholders' value in the long-term.

The Group monitors capital (including share capital, share premium and Preferred Shares on an as-if-converted basis) by regularly reviewing the capital structure. As a part of this review, the Group considers the cost of capital and the risks associated with the issued share capital. The Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or repurchase the Company's shares. In the opinion of the directors of the Company, the Group has operating profits and a low level of indebtedness. As a result, capital risk is not significant for the Group and measurement of capital management is not a tool currently used in the internal management reporting procedures of the Group.

3.3 Fair value estimation

The table below analyzes the Group's financial instruments carried at fair value as of each balance sheet date, by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorized into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's financial assets that are measured at fair value at December 31, 2019:

	Level 1	**Level 2**	**Level 3**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Assets				
Long-term investments measured at fair value through profit or loss (Note 19)	3,651,090	—	17,028,273	20,679,363
Short-term investments measured at fair value through profit or loss (Note 19)	—	—	16,463,390	16,463,390
	3,651,090	—	33,491,663	37,142,753

3 Financial risk management (Cont'd)

3.3 Fair value estimation (Cont'd)

The following table presents the Group's financial assets that are measured at fair value at December 31, 2018:

	Level 1	Level 2	Level 3	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Assets				
Long-term investments measured at fair value through profit or loss (Note 19)	5,215,898	—	13,420,310	18,636,208
Short-term investments measured at fair value through profit or loss (Note 19)	—	—	6,648,526	6,648,526
	5,215,898	—	20,068,836	25,284,734

(a) *Financial instruments in level 1*

The fair value of financial instruments traded in active markets is based on quoted market prices at each of the reporting dates. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

(b) *Financial instruments in level 2*

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value of an instrument are observable, the instrument is included in level 2.

3 Financial risk management (Cont'd)

3.3 Fair value estimation (Cont'd)

(c) Financial instruments in level 3

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments;
- Discounted cash flow model and unobservable inputs mainly including assumptions of expected future cash flows and discount rate; and
- A combination of observable and unobservable inputs, including risk-free rate, expected volatility, discount rate for lack of marketability, market multiples, etc.

Level 3 instruments of the Group's assets and liabilities include long-term investments measured at fair value through profit or loss, short-term investments measured at fair value through profit or loss and Preferred Shares.

The changes in level 3 instruments of Preferred Shares for the year ended December 31, 2018 are presented in the Note 35.

The following table presents the changes in level 3 instruments of long-term investments measured at fair value through profit or loss for the years ended December 31, 2019 and 2018:

	Year ended December 31,	
	2019	**2018**
	RMB'000	**RMB'000**
At the beginning of the year	13,420,310	13,092,429
Addition	3,486,670	1,727,614
Disposal	(396,683)	(146,908)
Changes in fair value	2,287,879	6,566,513
Transfer to long-term investments accounted for using the equity method	(958,701)	(6,523,539)
Transfer to level 1 financial instruments	(967,179)	(1,467,599)
Exchange gains	155,977	171,800
At the end of the year	17,028,273	13,420,310
Net unrealized gains for the year	1,772,043	4,047,551

3 Financial risk management (Cont'd)

3.3 Fair value estimation (Cont'd)

(c) Financial instruments in level 3 (Cont'd)

The following table presents the changes in level 3 instruments of short-term investments measured at fair value through profit or loss for the years ended December 31, 2019 and 2018:

	Year ended December 31,	
	2019	**2018**
	RMB'000	**RMB'000**
At the beginning of the year	6,648,526	4,488,076
Addition	134,409,027	140,955,400
Disposal	(125,019,014)	(139,154,171)
Changes in fair value	424,851	359,221
At the end of the year	16,463,390	6,648,526
Net unrealized gains for the year	38,390	23,526

The Group has a team that manages the valuation of level 3 instruments for financial reporting purposes. The team manages the valuation exercise of the investments on a case by case basis. At least once every year, the team would use valuation techniques to determine the fair value of the Group's level 3 instruments. External valuation experts will be involved when necessary.

The valuation of the level 3 instruments mainly included long-term investments measured at fair value through profit or loss in unlisted companies and certain listed companies for which sale is restricted for a specified period (Note 19), and short-term investments measured at fair value through profit or loss (Note 19). As these instruments are not traded in an active market, their fair values have been determined by using various applicable valuation techniques, including market approach etc.

3 Financial risk management (Cont'd)

3.3 Fair value estimation (Cont'd)

(c) Financial instruments in level 3 (Cont'd)

The following table summarizes the quantitative information about the significant unobservable inputs used in recurring level 3 fair value measurements.

Description	Fair values		Significant unobservable inputs	Range of inputs		Relationship of unobservable inputs to fair values
	As of December 31, 2019	As of December 31, 2018		As of December 31, 2019	As of December 31, 2018	
	RMB'000	RMB'000				
Long-term investments measured at fair value through profit or loss	17,028,273	13,420,310	Expected volatility	26% - 59%	32%-62%	The higher the expected volatility, the lower the fair value
			Discount for lack of marketability ("DLOM")	5% - 25%	5%-25%	The higher the DLOM, the lower the fair value
			Risk-free rate	2% - 3%	2%-4%	The higher the risk-free rate, the higher the fair value
Short-term investments measured at fair value through profit or loss	16,463,390	6,648,526	Expected rate of return	2% - 5%	2%-5%	The higher the expected rate of return, the higher the fair value

3 Financial risk management (Cont'd)

3.3 Fair value estimation (Cont'd)

If the fair values of the long-term investments and short-term investments measured at fair value through profit or loss held by the Group had been 10% higher/lower, the profit before income tax for the year ended December 31, 2019 would have been approximately RMB3,714,275,000 (2018: RMB2,528,473,000) higher/lower.

There were no material transfers between level 1, 2 and 3 of fair value hierarchy classifications during the year ended December 31, 2019, except that certain financial assets were transferred out of level 3 of fair value hierarchy to level 1 classifications due to the conversion to ordinary shares as the result of the initial public offering of the investee companies.

The carrying amounts of the Group's financial assets that are not measured at fair value, including cash and cash equivalents, restricted cash, short-term bank deposits, short-term investments measured at amortized cost, trade receivables, loan receivables and other receivables, and the Group's financial liabilities that are not measured at fair value, including borrowing, trade payables and other payables, approximate their fair values due to short maturities or the interest rates are close to the market interest rates.

4 Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Fair value of financial assets

Fair value of financial assets, in the absence of an active market, is estimated by using appropriate valuation techniques. Such valuations were based on certain assumptions about credit risk, volatility and liquidity risks associated with the instruments, which are subject to uncertainty and might materially differ from the actual results. Further details are included in Note 3.3.

(b) Impairment of loan receivables

The Group follows the guidance of IFRS 9 to determine when a loan receivable is impaired. This determination requires significant judgment and estimation. In making this judgment and estimation, the Group evaluates, among other factors, the duration of receivables and the financial health collection history of individual debtors and expected future change of credit risks, including the consideration of factors such as general economy measure, changes in macroeconomic indicators etc. Further details are included in Note 3.1 to the consolidated financial statements.

4 Critical accounting estimates and judgments (Cont'd)

(c) Current and deferred income taxes

The Group is subject to income taxes in different jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

For temporary differences which give rise to deferred tax assets, the Group assesses the likelihood that the deferred income tax assets could be recovered. Deferred tax assets are recognized based on the Group's estimates and assumptions that they will be recovered from taxable income arising from continuing operations in the foreseeable future.

(d) Inventory provision

Inventories are stated at the lower of cost and net realizable value. Management makes provision for inventories based on historical experience and estimation of future market condition and sales. Management will adjust the provision where actual net realizable value is higher or lower than previously estimated. This requires significant judgment and estimation.

(e) Recoverability of non-financial assets and investments accounted for using the equity method

The recoverable amount of non-financial assets and investments accounted for using the equity method is the greater of its fair value less costs of disposal and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset, which requires significant judgment relating to level of revenue and amount of operating costs.

The Group uses all readily available information in determining an amount that is a reasonable estimation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and operating costs. Changes in these estimates could have a significant impact on the carrying value of the assets and could result in further impairment charge or reversal of impairment in future periods.

4 Critical accounting estimates and judgments (Cont'd)

(f) Warranty provision

Warranty provision is based on the estimated cost of product warranties when revenue is recognized. Factors that affect the Group's warranty liability include the number of products sold under warranty, historical and anticipated rates of warranty claims on those products, and cost per claim to satisfy the warranty obligation. The estimation basis is reviewed on an on-going basis and revised where appropriate.

(g) Revenue

Application of various accounting principles related to the measurement and recognition of revenue requires the Group to make judgments and estimates. Specifically, significant judgments include determining whether the Group is acting as the principal in a transaction. The Group is a principal in a transaction if the Group obtains control of the products sold or services provided before they are transferred to customers. If control is unclear, when the Group is primarily obligated in a transaction, is subject to inventory risk, has latitude in establishing prices and selecting suppliers, or has several but not all of these indicators, the Group records revenues on a gross basis. Otherwise, the Group records the net amount earned as commissions from products sold or services provided.

5 Segment information

The Group's business activities, for which discrete financial statements are available, are regularly reviewed and evaluated by the CODM. The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer that makes strategic decisions. As a result of this evaluation, the Group determined that it has operating segments as follows:

- Smartphones
- IoT and lifestyle products
- Internet services
- Others

The CODM assesses the performance of the operating segments mainly based on segment revenue and gross profit of each operating segment. The selling and marketing expenses, administrative expenses and research and development expenses are not included in the measure of the segments' performance which is used by CODM as a basis for the purpose of resource allocation and assessment of segment performance. Fair value changes on investments measured at fair value through profit or loss, share of losses of investments accounted for using the equity method, other income, other (losses)/gains, net, finance income, net, fair value changes of convertible redeemable preferred shares and income tax expenses are also not allocated to individual operating segments.

The revenues from external customers reported to CODM are measured as segment revenue, which is the revenue derived from the customers in each segment. Revenues from smartphones segment are derived from the sale of smartphones. Revenues from the IoT and lifestyle products segment primarily comprise revenues from sales of (i) the Group's other in-house products, including smart TVs, laptops, AI speakers and smart routers, and (ii) the Group's ecosystem products, including certain IoT and other smart hardware products, as well as certain lifestyle products. Revenues from internet services segment are derived from advertising services and internet value-added services. Others segment primarily comprises revenue from the Group's hardware repair services for products and sale of materials.

5 Segment information (Cont'd)

The Group's cost of sales for smartphones segment and IoT and lifestyle products segment primarily consist of (i) procurement cost of raw materials and components for the Group's in-house products, (ii) assembly cost charged by the Group's outsourcing partners for the Group's in-house products, (iii) royalty fees for certain technologies embedded in the Group's in-house products, (iv) costs, in the forms of production costs and profit-sharing, paid to the Group's partners for procuring ecosystem products, (v) warranty expenses, and (vi) provision for impairment of inventories. The Group's cost of sales for internet services segment primarily consist of (i) content fees to game developers, and (ii) bandwidth, server custody and cloud service related costs. Cost of sales for others segment primarily consists of hardware repair costs and costs from sale of materials. Other information, together with the segment information, provided to the CODM, is measured in a manner consistent with that applied in the consolidated financial statements. There were no separate segment assets and segment liabilities information provided to the CODM, as CODM does not use this information to allocate resources or to evaluate the performance of the operating segments.

There were no material inter-segment sales during the years ended December 31, 2019 and 2018. The revenues from external customers reported to the CODM are measured in a manner consistent with that applied in the consolidated income statement.

The segment results for the years ended December 31, 2019 and 2018 are as follows:

	Year ended December 31, 2019				
	Smartphones	**IoT and lifestyle products**	**Internet services**	**Others**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
Segment revenues	122,094,897	62,087,998	19,841,569	1,814,218	205,838,682
Cost of sales	(113,335,546)	(55,134,299)	(6,998,096)	(1,816,708)	(177,284,649)
Gross profit/(loss)	8,759,351	6,953,699	12,843,473	(2,490)	28,554,033

	Year ended December 31, 2018				
	Smartphones	**IoT and lifestyle products**	**Internet services**	**Others**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
Segment revenues	113,800,386	43,816,885	15,955,558	1,342,596	174,915,425
Cost of sales	(106,757,127)	(39,306,134)	(5,683,856)	(976,369)	(152,723,486)
Gross profit	7,043,259	4,510,751	10,271,702	366,227	22,191,939

The reconciliation of gross profit to profit before income tax is shown in the consolidated income statement.

5 Segment information (Cont'd)

The Company is domiciled in the Cayman Islands while the Group mainly operates its businesses in mainland China. For the years ended December 31, 2019 and 2018, the geographical information on the total revenues is as follows:

	Year ended December 31,			
	2019		2018	
	RMB'000	%	RMB'000	%
Mainland China	114,608,633	55.7	104,944,803	60.0
Rest of the world (Note(a))	91,230,049	44.3	69,970,622	40.0
	205,838,682		174,915,425	

Note:

(a) Revenues outside mainland China are mainly from India, Indonesia and Western Europe.

The major customers which contributed more than 10% of the total revenue of the Group for the years ended December 31, 2019 and 2018 are listed as below:

	Year ended December 31,	
	2019	2018
	%	%
Customer A	12.1	10.9

All the revenues derived from other single external customer were less than 10% of the Group's total revenues for the years ended December 31, 2019 and 2018.

6 Revenue

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
Smartphones	122,094,897	113,800,386
IoT and lifestyle products	62,087,998	43,816,885
Internet services	19,841,569	15,955,558
Others	1,814,218	1,342,596
	205,838,682	174,915,425

7 Other income

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
Government grants	400,405	274,584
Value-added tax and other tax refunds	55,282	82,507
Dividend income	347,205	131,804
Investment income from short-term investments measured at fair value through profit or loss	386,461	335,695
Investment income from short-term investments measured at amortized cost	—	20,199
Others	76,568	—
	1,265,921	844,789

8 Expenses by nature

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
Cost of inventories sold	157,935,754	138,237,733
Provision for impairment of inventories (Note 23)	3,859,675	3,006,525
Royalty fees	5,042,116	4,263,421
Employee benefit expenses (Note 9)	8,304,928	17,114,892
Depreciation of property and equipment, right-of-use assets and investment properties (Note 14, 16, 17)	895,273	219,523
Amortization of intangible assets (Note 15)	485,786	528,693
Promotion and advertising expenses	3,355,201	2,486,350
Content fees to game developers and video providers	1,754,622	1,629,144
Credit loss allowance for loan receivables	1,015,619	607,180
Consultancy and professional service fees	730,312	903,076
Cloud service, bandwidth and server custody fees	1,724,145	1,725,218
Office rental expenses	—	529,497
Warranty expenses	2,641,794	1,068,252
Auditor's remuneration	79,126	51,803

During the year, the Group incurred expenses for the purpose of research and development of approximately RMB7,492,554,000 (2018: RMB5,776,826,000), which comprised employee benefits expenses of RMB4,526,246,000 (2018: RMB4,043,476,000). No significant development expenses had been capitalized during the year (2018: Nil).

9 Employee benefit expenses

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
Wages, salaries and bonuses	4,699,234	3,565,209
Share-based compensation expenses (Note (a) and Note 28)	2,201,722	12,380,668
Contributions to pension plans	551,073	481,686
Other social security costs, housing benefits and other employee benefits	852,899	687,329
	8,304,928	17,114,892

Note:

(a) Share-based compensation expenses contain the expenses for share-based awards granted to the Group's employees and the expenses for Xiaomi Development Fund ("Employee Fund").

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group include one director (Chew Shou Zi) during the year ended December 31, 2019 (2018: Lei Jun). All of these individuals including that one director have not received any emolument from the Group as an inducement to join the Group or compensation for loss of office during the years ended December 31, 2019 and 2018. The emoluments payable to the five highest paid individuals during the years ended December 31, 2019 and 2018 are as follows:

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
Wages, salaries and bonuses	6,762	9,398
Share-based compensation expenses	262,073	10,208,783
Contributions to pension plans	154	71
Other social security costs, housing benefits and other employee benefits	229	70
	269,218	10,218,322

The emoluments fell within the following bands:

	Number of individuals	
	Year ended December 31,	
	2019	2018
Hong Kong dollar ("HK$")10,000,001 to HK$30,000,000	–	–
HK$30,000,001 to HK$100,000,000	5	4
HK$100,000,001 to HK$150,000,000	–	–
HK$150,000,001 to HK$15,000,000,000	–	1

9 Employee benefit expenses (Cont'd)

(b) Benefits and interests of directors

Name of Director	Fees	Salary	Discretionary bonuses	Allowances and benefits in kind	Employer's contribution to a retirement benefit scheme	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Executive Directors						
LEI, Jun	–	–	–	–	–	–
LIN, Bin	–	–	–	–	–	–
CHEW, Shou Zi(i)	–	–	–	–	–	–
Non-executive Directors						
KOH, Tuck Lye(ii)	–	–	–	–	–	–
LIU, Qin	–	–	–	–	–	–
Independent non-executive Directors						
CHEN, Dongsheng	500	–	–	–	–	500
LEE, Ka Kit(iii)	311	–	–	–	–	311
WONG, Shun Tak(v)	823	–	–	–	–	823
TONG, Wai Cheung Timothy(iv) (vi)	511	–	–	–	–	511

Notes:

(i) Mr. Chew Shou Zi was appointed as an executive director of the Company with effect from October 25, 2019.

(ii) Mr. Koh Tuck Lye has resigned as a non-executive director of the Company with effect from October 25, 2019.

(iii) Dr. Lee Ka Kit has resigned as an independent non-executive director of the Company with effect from August 23, 2019.

(iv) Prof. Tong Wai Cheung Timothy was appointed as an independent non-executive director of the Company with effect from August 23, 2019.

(v) HK$323,000 was paid to Mr. Wong Shun Tak during the year ended December 31, 2019 in connection with his service as director or other service in respect of management of the affairs of the Company's subsidiary undertakings.

(vi) HK$323,000 was paid to Prof. Tong Wai Cheung Timothy during the year ended December 31, 2019 in connection with his service as director or other service in respect of management of the affairs of the Company's subsidiary undertakings.

During the year ended December 31, 2019, no share based awards were granted to directors. Certain share based awards were granted to Lei Jun during the year ended December 31, 2018 (Note 28).

(c) Directors' termination benefits

No director's termination benefit subsisted as of December 31, 2019 and 2018 or at any time during all the years presented.

(d) Consideration provided to third parties for making available directors' services

No consideration provided to third parties for making available directors' services subsisted as of December 31, 2019 and 2018 or at any time during all the years presented.

9 Employee benefit expenses (Cont'd)

(e) Information about loans, quasi-loans and other dealings in favor of directors, controlled bodies corporate by and connected entities with such directors

No loans, quasi-loans and other dealings in favor of directors, controlled bodies corporate by and connected entities with such directors subsisted as of December 31, 2019 and 2018 or at any time during all the years presented.

(f) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted as of December 31, 2019 and 2018 or at any time during all the years presented.

10 Finance income, net

	Year ended December 31,	
	2019	**2018**
	RMB'000	**RMB'000**
Finance income:		
Interest income from bank deposits	930,889	601,065

Interest income mainly represents interest income from bank deposits, including bank balance and term deposits.

	Year ended December 31,	
	2019	**2018**
	RMB'000	**RMB'000**
Finance costs:		
Interest expense from liabilities to fund investors (Note 29)	250,706	42,504
Interest expense from borrowings (Note 33) and lease liabilities (Note 16)	407,141	415,465
Less: amount capitalized	(129,387)	(73,277)
	528,460	384,692

Finance costs have been capitalized on qualifying assets at average interest rates of 5.78% per annum for the year ended December 31, 2019 (2018: 5.35%).

(Expressed in RMB unless otherwise indicated)

11(a) Major subsidiaries and controlled structured entities

As of December 31, 2019 and 2018, the Company had the following major subsidiaries (including controlled structured entities):

Name	Place of incorporation/ establishment and kind of legal entity	Date of incorporation/ establishment	Particulars of issued/ paid-in capital	Effective interest held			Principal activities
				As of December 31,		As of the date of this report	
				2019	2018		
Subsidiaries							
Directly held:							
Xiaomi H.K. Limited	Hong Kong, limited liability company	April 7, 2010	HK$10,000	100%	100%	100%	Wholesale and retail of smartphones and ecosystem partners' products
Fast Pace Limited	British Virgin Islands, limited liability company	January 8, 2013	US$2	100%	100%	100%	Investment holding and investment activities
Xiaomi Ventures Limited	British Virgin Islands, limited liability company	March 21, 2013	US$1	100%	100%	100%	Investment holding and investment activities
Xiaomi Singapore Pte. Ltd.	Singapore, limited liability company	December 23, 2013	Singapore Dollar ("SGD")1 and US$149,000,000	100%	100%	100%	Sales of smart hardware
Xiaomi Finance Inc.	Cayman Islands, limited liability company	February 15, 2018	US$1	100%	100%	100%	Investment holding and investment activities
Xiaomi Best Time International Ltd.	Hong Kong, limited liability company	December 20, 2018	US$500,000,000	100%	100%	100%	Intra-group capital supervision, collection, remittance, credit guarantee and interest rate risk management
Indirectly held:							
Xiaomi Communications Co., Ltd.	Mainland China, limited liability company	August 25, 2010	US$130,000,000	100%	100%	100%	Sales of smartphones, sales of ecosystem partners' products and provision of customer services
Beijing Xiaomi Electronics Co., Ltd.	Mainland China, limited liability company	January 9, 2012	US$27,000,000	100%	100%	100%	Sales of smart hardware
Taiwan Xiaomi Communications Co., Ltd.	Taiwan, limited liability company	April 25, 2000	New Taiwan Dollar ("NTD")5,000,000	100%	100%	100%	Sales of smart hardware
Chongqing Xiaomi Microcredit Co., Ltd.	Mainland China, limited liability company	June 12, 2015	US$450,000,000	100%	100%	100%	Internet finance and consumer loan services
Beijing Xiaomi Mobile Software Co., Ltd.	Mainland China, limited liability company	May 8, 2012	RMB288,000,000	100%	100%	100%	Software and hardware development and provision of software related services

(Expressed in RMB unless otherwise indicated)

11(a) Major subsidiaries and controlled structured entities (Cont'd)

As of December 31, 2019 and 2018, the Company had the following major subsidiaries (including controlled structured entities) (Cont'd):

Name	Place of incorporation/ establishment and kind of legal entity	Date of incorporation/ establishment	Particulars of issued/ paid-in capital	Effective interest held			Principal activities
				As of December 31,		As of the date of this report	
				2019	2018		
Subsidiaries							
Indirectly held (Cont'd):							
Zhuhai Xiaomi Communications Co., Ltd.	Mainland China, limited liability company	January 25, 2013	RMB2,000,000	100%	100%	100%	Procurement and sales of smartphones, ecosystem partners' products and spare parts, procurement of raw materials
Guangdong Xiaomi Inc.	Mainland China, limited liability company	September 21, 2015	RMB1,000,000,000	100%	100%	100%	Provision of software and technology service
Guangzhou Xiaomi Communications Co., Ltd.	Mainland China, limited liability company	September 22, 2016	RMB951,000,000	100%	100%	100%	Sales of smart hardware
Timi Personal Computing Co., Ltd.	Mainland China, limited liability company	July 28, 2015	RMB2,000,000	100%	100%	100%	Sales of smart hardware
Xiaomi Technology India Private Limited	India, limited liability company	October 7, 2014	Indian Rupees ("INR")207,450	100%	100%	100%	Sales of smartphones and ecosystem partners' products
Guangzhou Xiaomi Information Service Co., Ltd.	Mainland China, limited liability company	December 29, 2016	RMB1,000,000	100%	100%	100%	Provision of advertising and promotion services
Xiaomi Home Commercial Co., Ltd.	Mainland China, limited liability company	June 27, 2017	RMB100,000,000	100%	100%	100%	Operation of retail stores
Red Better Limited	British Virgin Islands, limited liability company	October 8, 2013	–	100%	100%	100%	Investment activities
Green Better Limited	British Virgin Islands, limited liability company	December 9, 2013	US$1	100%	100%	100%	Investment activities
People Better Limited	British Virgin Islands, limited liability company	April 22, 2014	US$1,000,001	100%	100%	100%	Investment activities
Xiaomi Home Technology Co., Ltd.	Mainland China, limited liability company	January 20, 2017	RMB80,000,000	100%	100%	100%	Operation of retail stores
Beijing Zilin Real Estate Co., Ltd.	Mainland China, limited liability company	November 29, 2018	RMB1,000,000,000	95%	95%	95%	Property management

(Expressed in RMB unless otherwise indicated)

11(a) Major subsidiaries and controlled structured entities (Cont'd)

As of December 31, 2019 and 2018, the Company had the following major subsidiaries (including controlled structured entities) (Cont'd):

Name	Place of incorporation/ establishment and kind of legal entity	Date of incorporation/ establishment	Particulars of issued/ paid-in capital	Effective interest held			Principal activities
				As of December 31,		As of the date of this report	
				2019	2018		
Subsidiaries							
Indirectly held (Cont'd):							
Xiaomi Commercial Factoring (Tianjin) Co., Ltd.	Mainland China, limited liability company	March 21, 2018	US$380,000,000	100%	100%	100%	Commercial factoring business
Beijing Xiaomi Software Co., Ltd.	Mainland China, limited liability company	December 19, 2011	RMB18,859,500	100%	100%	100%	Research and development of computer software and information technology
PT. Xiaomi Technology Indonesia	Indonesia, limited liability company	April 23, 2018	Indonesian Rupiah ("IDR") 13,000,000,000	100%	100%	100%	Sales of smartphones and ecosystem partners' products
Xiaomi Technology (Wuhan) Co., Ltd.	Mainland China, limited liability company	September 1, 2017	RMB210,000,000	100%	100%	100%	Software development
Airstar Bank Limited	Hong Kong, limited liability company	July 13, 2018	HK$1,500,000,000	90%	90%	90%	Virtual banking
Xiaomi Information Technology Wuhan Ltd.	Mainland China, limited liability company	August 3, 2018	RMB123,770,000	100%	100%	100%	Information technology advisory services
Beijing Pinecone Electronics Co., Ltd. (Note (b))	Mainland China, limited liability company	October 16, 2014	RMB250,000,000	100%	72%	100%	Development and sales of electronic products
Chengdu Beida Asset Management Co., Ltd.	Mainland China, limited liability company	August 17, 2017	RMB20,000,000	100%	100%	100%	Asset management, project investment, investment consulting
Beijing Xiaomi Intelligent Technology Co., Ltd.	Mainland China, limited liability company	May 15, 2018	RMB40,000,000	100%	100%	100%	Technology development, technology diffusion, technology transfer, technology consulting
Controlled structured entities (Note (a)):							
Xiaomi Inc.	Mainland China, limited liability company	March 3, 2010	RMB1,850,000,000	100%	100%	100%	E-commerce business
Tianjin Jinxing Venture Investment Co., Ltd.	Mainland China, limited liability company	December 26, 2013	RMB2,476,557,552	100%	100%	100%	Investment activities
Sichuan Silver Mi Technology Co., Ltd.	Mainland China, limited liability company	October 26, 2005	RMB2,000,000,000	100%	100%	100%	Research and development of computer software and market research
Jiefu Ruitong Inc.	Mainland China, limited liability company	January 11, 2011	RMB100,000,000	100%	100%	100%	Provision of electronic payment services

(Expressed in RMB unless otherwise indicated)

11(a) Major subsidiaries and controlled structured entities (Cont'd)

As of December 31, 2019 and 2018, the Company had the following major subsidiaries (including controlled structured entities) (Cont'd):

Name	Place of incorporation/ establishment and kind of legal entity	Date of incorporation/ establishment	Particulars of issued/ paid-in capital	Effective interest held			Principal activities
				As of December 31,		As of the date of this report	
				2019	2018		
Subsidiaries							
Controlled structured entities (Note (a)) (Cont'd):							
Beijing Duokan Technology Co., Ltd.	Mainland China, limited liability company	February 10, 2010	RMB10,000,000	100%	100%	100%	Sales of e-book
Beijing Wali Internet Technologies Co., Ltd.	Mainland China, limited liability company	June 1, 2009	RMB2,100,000	100%	100%	100%	Provision of internet services
Tianjin Gold Mi Investment Partners (Limited Partnership)	Mainland China, limited partnership	July 16, 2014	RMB2,408,957,772	100%	100%	100%	Investment activities
Hubei Xiaomi Yangtze River Industry Investment Fund Partners (Limited Partnership)	Mainland China, limited partnership	December 7, 2017	RMB3,384,000,000	18%	18%	18%	Investment activities
Youpin Information Technology Co., Ltd.	Mainland China, limited liability company	April 4, 2018	RMB50,000,000	100%	100%	100%	E-commerce business

Notes:

(a) *The Company does not have directly or indirectly legal ownership in equity of these structured entities or their subsidiaries. Nevertheless, under certain Contractual Arrangements entered into with the registered owners of these structured entities, the Company and its other legally owned subsidiaries control these companies by way of controlling the voting rights, governing their financial and operating policies, appointing or removing the majority of the members of their controlling authorities, and casting the majority of votes at meetings of such authorities. Accordingly, the Group has rights to exercise power over these structured entities, receives variable returns from its involvement in these structured entities, and has the ability to affect those returns through its power over these structured entities. As a result, they are presented as structured entities of the Company.*

(b) *In 2019, the Group entered into a share repurchase agreement with minority shareholders of Pinecone Cayman Limited ("Pinecone Cayman") to obtain certain indirect equity interest in it, as a result, the Group's shareholding interest in Beijing Pinecone Electronics Co., Ltd. which was indirectly owned by Pinecone Cayman changed from 72% to 100%.*

(c) *The Company considered that the non-wholly owned subsidiaries with non-controlling interests are not significant to the Group, therefore, no summarized financial information of these non-wholly owned subsidiaries is presented separately.*

(d) *The English names of the subsidiaries are direct translation or transliteration of their Chinese registered names.*

11(b) Investments accounted for using the equity method

	As of December 31,	
	2019	**2018**
	RMB'000	**RMB'000**
Investments in associate accounted for using the equity method		
- Listed entities	5,499,386	6,198,681
- Unlisted entities	3,801,121	2,440,557
	9,300,507	8,639,238

	Year ended December 31,	
	2019	**2018**
	RMB'000	**RMB'000**
At the beginning of the year	8,639,238	1,710,819
Additions (Note (a),(b))	1,197,944	7,289,333
Disposal	(93,596)	(100)
Share of losses	(671,822)	(614,920)
Share of other comprehensive income	9,279	191,449
Share of changes of other reserves	229,740	62,657
Dividends from associates	(10,276)	–
At the end of the year	9,300,507	8,639,238

Notes:

(a) *In April 2019, Ninebot Limited ("Ninebot"), an investment engaging in the operation of developing and selling IoT-enabled smart mobility products mainly in mainland China, for which the Group accounted as long-term investments measured at fair value through profit or loss, was accepted by the Shanghai Stock Exchange for its listing application on the Sci-Tech Innovation Board (STAR Market). The conversion of the preference shares in Ninebot owned by the Group into ordinary shares was completed on April 17, 2019, following which the Group reclassified the investment in associate measured at fair value through profit or loss to an investment accounted for using the equity method.*

(b) *In June 2019, Shanghai Sunmi Technology Co., Ltd. ("Sunmi"), an investment engaging in the provision of a full range of intelligent hardware solutions based on Android's operating system for commercial applications in mainland China, for which the Group accounted as long-term investments measured at fair value through profit or loss, underwent the overall change from a limited liability company to a joint stock company. The conversion of the preference shares in Sunmi owned by the Group into ordinary shares was completed on June 28, 2019, following which the Group reclassified the investment in associate measured at fair value through profit or loss to an investment accounted for using the equity method.*

11(b) Investments accounted for using the equity method (Cont'd)

Management has assessed the level of influence that the Group exercises on certain associates and determined that it has significant influence through the board representation, even though the respective shareholding of some investments is below 20%. Accordingly, these investments have been classified as associates.

Set out below are the material associates of the Group as of December 31, 2019 and 2018. The associates as listed below are ordinary shares investment, which held directly by the Group. Mainland China is their principal place of business. The proportion of ownership interest is the same as the proportion of voting rights held.

				Quoted fair value		Carrying amount	
Name of entity	**Place of incorporation**	**% of Ownership interest**	**Principal activities**	**As of December 31,**		**As of December 31,**	
				2019	**2018**	**2019**	**2018**
				RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Sichuan Xin Wang Bank Co., Ltd. ("XW Bank")	Mainland China	29.5	Provision of internet banking service	NA	NA	1,269,913	936,908
iQIYI, Inc. ("iQIYI")	Cayman Islands	6.7	Provision of internet video streaming services	7,192,441	4,984,330	3,769,444	4,377,472

The associates of the Group have been accounted by using the equity method based on the financial information of the associates prepared under the accounting policies consistent with the Group.

11(b) Investments accounted for using the equity method (Cont'd)

Set out below are the summarized financial information of material associates.

	XW Bank		iQIYI	
	As of December 31,		As of December 31,	
	2019	2018	2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000
Summarized consolidated balance sheets				
Current assets	10,427,012	28,137,561	20,272,838	19,853,443
Non-current assets	33,726,206	8,021,166	34,721,946	35,736,050
Current liabilities	21,007,556	28,454,306	20,173,166	19,812,356
Non-current liabilities	18,840,873	4,528,463	17,455,010	9,499,228
Redeemable non-controlling interests	–	–	101,542	–
Non-controlling interests	–	–	42,376	118,632
Equity attributable to owners of the Company	4,304,789	3,175,958	17,222,690	26,159,277
Reconciliation to carrying amounts:				
Group's share of net assets attributable to owners of the associates	1,269,913	936,908	1,160,011	1,768,039
Adjustment				
- Goodwill	–	–	2,609,433	2,609,433
Carrying amount	1,269,913	936,908	3,769,444	4,377,472

	XW Bank		iQIYI	
	Year ended December 31,		Year ended December 31,	
	2019	2018	2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000
Summarized consolidated income statements and consolidated statements of comprehensive income				
Revenues	2,680,662	1,160,403	28,993,658	24,989,116
Profit/(loss) from operations	1,302,822	461,099	(9,728,508)	(8,420,635)
Profit/(loss) before tax	1,302,121	460,343	(10,695,558)	(9,096,829)
Net profit/(loss)	1,133,181	371,470	(10,747,410)	(9,175,630)
Other comprehensive (loss)/income	–	(711)	226,772	1,786,820
Total comprehensive income/(loss)	1,133,181	370,759	(10,520,638)	(7,388,810)

11(b) Investments accounted for using the equity method (Cont'd)

In addition to the interests in associates disclosed above, the Group also has interests in a number of individually immaterial associates that are accounted for using the equity method.

	As of December 31,	
	2019	**2018**
	RMB'000	**RMB'000**
Aggregate carrying amount of individually immaterial associates	4,261,150	3,324,858
Aggregate amounts of the Group's share of:		
Net loss	(271,592)	(108,184)
Other comprehensive (loss)/income	(5,996)	45,587
Total comprehensive loss	(277,588)	(62,597)

There are no contingent liabilities relating to the Group's interests in the associates.

12 Income tax expenses

The income tax expenses of the Group during the years ended December 31, 2019 and 2018 are analyzed as follows:

	Year ended December 31,	
	2019	**2018**
	RMB'000	**RMB'000**
Current income tax	2,228,609	1,414,602
Deferred income tax (Note 34)	(168,913)	(965,225)
Income tax expenses	2,059,696	449,377

12 Income tax expenses (Cont'd)

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the statutory tax rate of 25% in mainland China, being the tax rate applicable to the majority of consolidated entities as follows:

	Year ended December 31,	
	2019	**2018**
	RMB'000	**RMB'000**
Profit before income tax	12,162,646	13,927,124
Tax calculated at statutory income tax rate of 25% in mainland China (Note (a))	3,040,662	3,481,781
Tax effects of:		
- Effect of different tax rates in other jurisdictions (Note (b),(c),(d))	(617,082)	(2,037,227)
- Preferential income tax rates applicable to subsidiaries (Note (e))	(1,055,387)	(1,017,178)
- Tax losses and temporary differences for which no deferred income tax assets was recognized	347,222	115,452
- Expenses not deductible for income tax purposes	721,596	588,839
- Utilization of previously unrecognized deductible tax losses and temporary differences	(25,515)	(89,626)
- Recognition of previously unrecognized deductible tax losses and temporary differences	(285,756)	–
- Super Deduction for research and development expenses (Note (f))	(301,835)	(166,794)
- Income not subject to tax	(117,241)	(157,306)
- Tax refund (Note (e))	–	(270,757)
- Reversal of deferred income tax assets	350,959	–
- Others	2,073	2,193
Income tax expenses	2,059,696	449,377

Notes:

(a) *Enterprise income tax in mainland China ("EIT")*

The income tax provision of the Group in respect of its operations in mainland China was calculated at tax rate of 25% on the assessable profits for the periods presented, based on the existing legislation, interpretations and practices in respect thereof.

(b) *Cayman Islands and British Virgin Islands income tax*

The Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and accordingly, is exempted from Cayman Islands income tax. As such, the operating results reported by the Company, including the fair value gain of Preferred Shares (Note 35) and the share-based payments (Note 28), are not subject to any income tax.

The Group entities established under the International Business Companies Acts of British Virgin Islands ("BVI") are exempt from BVI income taxes.

(c) *Hong Kong income tax*

Entities incorporated in Hong Kong are subject to Hong Kong profits tax of which the tax rate was 16.5% up to April 1, 2018 when the two-tiered profits tax regime took effect, under which the tax rate is 8.25% for assessable profits in the first HK$2 million and 16.5% for any assessable profits in excess.

12 Income tax expenses (Cont'd)

Notes (Cont'd):

(d) India income tax

The income tax provision for India entities were calculated at corporate income tax rates of 35% before April 1, 2019, after then 25% on the assessable profits, based on the existing legislation, interpretations and practices in respect thereof.

(e) Preferential EIT rate

Certain subsidiaries are entitled to preferential tax rates ranging from 10% to 15%. Main subsidiaries with preferential EIT rates are as follows:

Beijing Xiaomi Mobile Software Co., Ltd. ("Xiaomi Mobile") was qualified as a "Key Software Enterprise" in the third quarter of 2018, hence it enjoys a preferential income tax rate of 10% retroactively from January 1, 2017. Accordingly, Xiaomi Mobile was entitled to tax refund for the income tax paid in 2017 and such tax refund was received by Xiaomi Mobile from local tax bureau in December 2018. Xiaomi Mobile enjoys the preferential EIT rate of 10% for the years ended December 31, 2019 and 2018.

Beijing Xiaomi Digital Technology Co., Ltd. was qualified as a "High and New Technology Enterprise" in November 2018, hence it enjoys a preferential income tax rate of 15% for three years from 2018 to 2020.

(f) Super Deduction for research and development expense

According to the relevant laws and regulations promulgated by the State Council of the People's Republic of China that was effective from 2008 onwards, enterprises engaging in research and development activities were entitled to claim 150% of their research and development expenses so incurred as tax deductible expenses when determining their assessable profits for that year ("Super Deduction"). The State Taxation Administration of The People's Republic of China announced in September 2018 that enterprises engaging in research and development activities would entitle to claim 175% of their research and development expenses as Super Deduction from January 1, 2018 to December 31, 2020. The Group has made its best estimate for the Super Deduction to be claimed for the Group's entities in ascertaining their assessable profits during the year.

(g) Withholding tax in mainland China ("WHT")

According to the New Corporate Income Tax Law ("New EIT Law"), distribution of profits earned by companies in mainland China since January 1, 2008 to foreign investors is subject to withholding tax of 5% or 10%, depending on the country of incorporation of the foreign investors, upon the distribution of profits to overseas-incorporated immediate holding companies.

The Group does not have any plan in the foreseeable future to require its subsidiaries in mainland China to distribute their retained earnings and intends to retain them to operate and expand its business in mainland China. Accordingly, no deferred income tax liability related to WHT on undistributed earnings was accrued as of the end of each reporting period.

13 Earnings per share

On June 17, 2018, pursuant to the shareholders' resolution, each existing issued and unissued share of US$0.000025 each in the share capital of the Company were subdivided into 10 shares of US$0.0000025 each ("Share Subdivision"). Following the Share Subdivision, the weighted average number of ordinary shares for the purpose of basic and diluted earnings per share for the year ended December 31, 2018 has been retrospectively adjusted.

(a) Basic

Basic earnings per share for the years ended December 31, 2019 and 2018 are calculated by dividing the profit or loss attributable to the Company's owners by the weighted average number of ordinary shares in issue during the year.

	Year ended December 31,	
	2019	**2018**
	RMB'000	**RMB'000**
Net profit attributable to the owners of the Company	10,044,164	13,553,886
Weighted average number of ordinary shares in issue (thousand shares)	23,746,463	16,069,770
Basic earnings per share (expressed in RMB per share)	0.423	0.843

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

	Year ended December 31,	
	2019	**2018**
	RMB'000	**RMB'000**
Net profit attributable to the owners of the Company	10,044,164	13,553,886
Less: fair value gain of Preferred Shares	–	(12,514,279)
Net profit used to determine diluted earnings per share	10,044,164	1,039,607
Weighted average number of ordinary shares in issue (thousand shares)	23,746,463	16,069,770
Adjustments for Preferred Shares (thousand shares)	–	5,468,315
Adjustments for RSUs and share options granted to employees (thousand shares)	762,301	2,024,845
Weighted average number of ordinary shares for calculation of diluted earnings per share (thousand shares)	24,508,764	23,562,930
Diluted earnings per share (expressed in RMB per share)	0.410	0.044

14 Property and equipment

	Electronic equipment	Office equipment	Buildings	Leasehold improvements	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2019						
Cost	642,723	33,932	–	564,076	4,543,071	5,783,802
Accumulated depreciation	(379,599)	(15,627)	–	(320,523)	–	(715,749)
Net book amount	263,124	18,305	–	243,553	4,543,071	5,068,053
Year ended December 31, 2019						
Opening net book amount	263,124	18,305	–	243,553	4,543,071	5,068,053
Currency translation differences	288	50	–	(2,950)	1	(2,611)
Additions	372,180	2,274	–	247,015	2,511,206	3,132,675
Transfer from construction in progress to buildings	–	–	2,974,650	–	(2,974,650)	–
Disposal	(50,990)	(10,836)	–	(28,579)	(31,690)	(122,095)
Transfer to investment properties (Note 17)	–	–	(707,268)	–	(52,512)	(759,780)
Depreciation charge (Note 8)	(126,176)	(2,420)	(17,636)	(177,679)	–	(323,911)
Closing net book amount	458,426	7,373	2,249,746	281,360	3,995,426	6,992,331
At December 31, 2019						
Cost	887,568	22,789	2,267,382	775,970	3,995,426	7,949,135
Accumulated depreciation	(429,142)	(15,416)	(17,636)	(494,610)	–	(956,804)
Net book amount	458,426	7,373	2,249,746	281,360	3,995,426	6,992,331
At January 1, 2018						
Cost	422,515	14,317	–	331,083	1,473,761	2,241,676
Accumulated depreciation	(297,588)	(11,870)	–	(201,346)	–	(510,804)
Net book amount	124,927	2,447	–	129,737	1,473,761	1,730,872
Year ended December 31, 2018						
Opening net book amount	124,927	2,447	–	129,737	1,473,761	1,730,872
Currency translation differences	(330)	(13)	–	(1,010)	13	(1,340)
Additions	242,843	19,612	–	243,364	3,119,183	3,625,002
Disposals/transfer	(17,071)	(1)	–	–	(49,886)	(66,958)
Depreciation charge (Note 8)	(87,245)	(3,740)	–	(128,538)	–	(219,523)
Closing net book amount	263,124	18,305	–	243,553	4,543,071	5,068,053
At December 31, 2018						
Cost	642,723	33,932	–	564,076	4,543,071	5,783,802
Accumulated depreciation	(379,599)	(15,627)	–	(320,523)	–	(715,749)
Net book amount	263,124	18,305	–	243,553	4,543,071	5,068,053

Construction in progress as of December 31, 2019 and 2018 mainly comprises new office buildings being constructed in mainland China.

14 Property and equipment (Cont'd)

Depreciation expenses have been charged to the consolidated income statement as follows:

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
Administrative expenses	109,466	61,216
Selling and marketing expenses	124,624	98,941
Research and development expenses	75,223	59,366
Cost of sales	14,598	–
	323,911	219,523

15 Intangible assets

	Goodwill (Note (a))	License	Trademarks, patents and domain name	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2019					
Cost	282,090	1,408,219	1,084,466	224,578	2,999,353
Accumulated amortization	–	(395,806)	(416,547)	(125,808)	(938,161)
Net book amount	282,090	1,012,413	667,919	98,770	2,061,192
Year ended December 31, 2019					
Opening net book amount	282,090	1,012,413	667,919	98,770	2,061,192
Currency translation differences	–	(29)	(1,200)	402	(827)
Additions	–	18,820	6,461	116,231	141,512
Disposals	(33,923)	–	(9,889)	(277)	(44,089)
Amortization charge (Note 8)	–	(331,803)	(112,481)	(41,502)	(485,786)
Closing net book amount	248,167	699,401	550,810	173,624	1,672,002
At December 31, 2019					
Cost	248,167	1,426,992	1,080,599	340,711	3,096,469
Accumulated amortization	–	(727,591)	(529,789)	(167,087)	(1,424,467)
Net book amount	248,167	699,401	550,810	173,624	1,672,002
At January 1, 2018					
Cost	248,167	1,343,686	1,003,239	107,792	2,702,884
Accumulated amortization	–	(63,735)	(280,034)	(84,763)	(428,532)
Net book amount	248,167	1,279,951	723,205	23,029	2,274,352
Year ended December 31, 2018					
Opening net book amount	248,167	1,279,951	723,205	23,029	2,274,352
Currency translation differences	–	–	(10,049)	(106)	(10,155)
Additions	33,923	71,723	110,283	116,949	332,878
Disposals	–	(7,190)	–	–	(7,190)
Amortization charge (Note 8)	–	(332,071)	(155,520)	(41,102)	(528,693)
Closing net book amount	282,090	1,012,413	667,919	98,770	2,061,192
At December 31, 2018					
Cost	282,090	1,408,219	1,084,466	224,578	2,999,353
Accumulated amortization	–	(395,806)	(416,547)	(125,808)	(938,161)
Net book amount	282,090	1,012,413	667,919	98,770	2,061,192

15 Intangible assets (Cont'd)

Note:

(a) *For the purpose of impairment tests of goodwill, goodwill is allocated to groups of cash-generating units. Such groups of cash-generating units represent the lowest level within the Group for which the goodwill is monitored for internal management purpose.*

Impairment review on the goodwill of the Group has been conducted by the management as of December 31, 2019 and 2018 according to IAS 36 "Impairment of assets". For the purposes of impairment review, the recoverable amount of goodwill is determined based on value-in-use calculations by using the discounted cash flow method. Management forecasted the average annual revenue growth rate in five-year period is 5%, and the cash flows beyond the five-year period were extrapolated using the estimated annual growth rates of 2%. Pre-tax discount rate of 20% was used to reflect market assessment of time value and the specific risks relating to the CGUs.

The management performed impairment test for the goodwill and determined such goodwill was not impaired. Reasonably possible changes in key assumptions will not lead to the goodwill impairment loss as of December 31, 2019 and 2018.

Amortization charges were expensed off in the following categories in the consolidated income statement:

	Year ended December 31,	
	2019	**2018**
	RMB'000	**RMB'000**
Administrative expenses	33,968	77,468
Selling and marketing expenses	1,080	648
Research and development expenses	450,738	450,577
	485,786	528,693

The Group tests annually whether goodwill and other intangible assets with an indefinite useful life have suffered any impairment. During the years ended December 31, 2019 and 2018, no goodwill or other identifiable intangible assets have been impaired.

16 Leases

	As of December 31, 2019	As of January 1, 2019
	RMB'000	RMB'000
(i) The consolidated balance sheet includes the following amounts relating to leases:		
Right-of-use assets (Note(a))		
Land use rights	2,859,297	3,389,731
Properties	915,581	859,454
Other assets	58,222	32,754
	3,833,100	4,281,939
Lease liabilities (Note(b))		
Current	(399,444)	(285,402)
Non-current	(560,804)	(573,431)
	(960,248)	(858,833)

Notes:

(a) *Included in the line item 'Other non-current assets' in the consolidated balance sheet.*

(b) *Current lease liabilities and non-current lease liabilities are included in the line item 'Other payables and accruals' and 'Other non-current liabilities' in the consolidated balance sheet, respectively.*

	Year ended December 31, 2019
	RMB'000
(ii) The consolidated income statement shows the following amounts relating to leases:	
Depreciation charge of right-of-use assets	571,336
Interest expense (included in finance income, net)	45,881
Expense relating to short-term leases not included in lease liabilities (included in cost of sales and expenses)	563,400
	1,180,617

Besides land use rights, the Group leases offices, warehouses, retail stores and servers. No variable lease payments were contained in lease contracts during the year ended December 31, 2019.

The total cash outflow in financing activities for leases during the year ended December 31, 2019 was RMB578,063,000, including principal elements of lease payments of approximately RMB532,182,000 and related interest paid of approximately RMB45,881,000, respectively.

17 Other non-current assets

	As of December 31, 2019	2018
	RMB'000	RMB'000
Right-of-use assets (Note 16)	3,833,100	–
Investment properties (Note (a))	1,250,932	–
Long-term bank deposits	590,157	992
Others	488,314	94,493
	6,162,503	95,485

Note:

(a) *Investment properties*

	Buildings and facilities	Land use right	Investment properties in constructions	Total
	RMB'000	RMB'000	RMB'000	RMB'000
COST				
At January 1, 2019	–	–	–	–
Transfer from property and equipment	711,432	–	52,512	763,944
Transfer from right-of-use assets	–	504,895	–	504,895
Addition	–	–	26,801	26,801
At December 31, 2019	711,432	504,895	79,313	1,295,640
ACCUMULATED DEPRECIATION				
At January 1, 2019	–	–	–	–
Charge for the year (Note 8)	(26)	–	–	(26)
Transfer from property and equipment	(4,164)	–	–	(4,164)
Transfer from right-of-use assets	–	(40,518)	–	(40,518)
At December 31, 2019	(4,190)	(40,518)	–	(44,708)
NET BOOK VALUE				
At December 31, 2019	707,242	464,377	79,313	1,250,932

17 Other non-current assets (Cont'd)

Note (Cont'd):

(a) Investment properties (Cont'd)

(i) Details of the Group's main investment properties and information about the fair value hierarchy as of December 31, 2019 are as follows:

	As of December 31, 2019	
	Carrying amount	**Fair value (level 3)**
	RMB'000	**RMB'000**
Investment property units located in Haidian, Beijing	1,148,225	1,557,120

The investment property units located in Haidian, Beijing were valued at December 31, 2019 by Asia-Pacific Consulting and Appraisal Limited, which is an independent qualified valuer. The valuation was determined on the basis of capitalization of the net rental income with due provisions for reversionary income potential of the respective properties as of December 31, 2019. The key inputs were term yield and reversionary yield.

The above investment properties are leased to tenants under operating leases with rentals payable semiannually. Lease payments for the contracts include CPI increases, but there are no other variable lease payments that depend on an index or rate. Although the Group is exposed to changes in the residual value at the end of the current leases, the Group typically enters into new operating leases and therefore will not immediately realize any reduction in residual value at the end of these leases. Expectations about the future residual values are reflected in the fair value of the properties as disclosed above.

(ii) Property rental income earned during the year ended December 31, 2019 was approximately RMB8,746,000. The investment property units located in Haidian, Beijing has committed tenants for the next 6 years. The investment properties in constructions located in Yizhuang, Beijing has committed tenants for the next 14 years. As of December 31, 2019, the Group had future minimum lease receipts under non-cancellable operating leases as follows:

	As of December 31, 2019
	RMB'000
No later than 1 year	94,722
Later than 1 year and no later than 14 years	570,070
	664,792

(iii) Depreciation charges of approximately RMB26,000 for the year ended December 31, 2019 have been charged in profit or loss.

18 Financial instruments by category

	As of December 31,	
	2019	2018
	RMB'000	RMB'000
Assets as per balance sheet		
Financial assets measured at fair value through profit or loss:		
- Long-term investments measured at fair value through profit or loss (Note 19)	20,679,363	18,636,208
- Short-term investments measured at fair value through profit or loss (Note 19)	16,463,390	6,648,526
Financial assets measured at amortized costs:		
- Trade receivables (Note 21)	6,948,567	5,598,443
- Loan receivables (Note 20)	12,723,503	10,293,645
- Other receivables	12,246,498	12,408,170
- Long-term bank deposits (Note 17)	590,157	992
- Short-term bank deposits (Note 24(c))	21,523,043	1,365,991
- Restricted cash (Note 24(b))	1,538,266	1,480,178
- Cash and cash equivalents (Note 24(a))	25,919,861	30,230,147
	118,632,648	86,662,300
Liabilities as per balance sheet		
Financial liabilities measured at amortized cost:		
- Trade payables (Note 30)	59,527,940	46,287,271
- Other payables	6,080,191	4,805,101
- Borrowings (Note 33)	17,623,411	10,931,337
- Investment from fund investors (Note 29)	3,074,210	2,823,504
- Lease liabilities (Note 16)	960,248	–
	87,266,000	64,847,213

19 Investments

	As of December 31,	
	2019	**2018**
	RMB'000	**RMB'000**
Current assets		
Short-term investments measured at fair value through profit or loss (i)	16,463,390	6,648,526
Non-current assets		
Long-term investments measured at fair value through profit or loss		
- Equity investments (ii)	7,272,454	7,629,929
- Preferred shares investments (iii)	13,406,909	11,006,279
	20,679,363	18,636,208

(i) Short-term investments measured at fair value through profit or loss

The short-term investments measured at fair value through profit or loss are wealth management products, denominated in RMB, with expected rates of return ranging from 1.76% to 4.60% per annum for the year ended December 31, 2019 (2018: 2.20% to 5.15%). The returns on all of these wealth management products are not guaranteed, hence their contractual cash flows do not qualify for solely payments of principal and interest. Therefore they are measured at fair value through profit or loss. None of these investments are past due.

The fair values are based on cash flow discounted using the expected return based on management judgment and are within level 3 of the fair value hierarchy.

(ii) Equity investments

	As of December 31,	
	2019	**2018**
	RMB'000	**RMB'000**
Listed	4,778,263	5,215,898
Unlisted	2,494,191	2,414,031
	7,272,454	7,629,929

The fair values of the listed securities are determined based on the closing prices quoted in active markets. They are accounted for using their fair values based on quoted market prices (level 1: quoted price (unadjusted) in active markets) without any deduction for transaction costs. For certain listed securities which are restricted for sale in a specified period, their fair values are determined based on quoted market prices and unobservable inputs (i.e. discount rate for lack of marketability) and hence classified as level 3 of the fair value hierarchy. And as of December 31, 2019, the Group has not elected to recognize the fair value gains or losses on equity investments in OCI.

The fair values of unlisted securities are measured using a valuation technique with unobservable inputs and hence classified as level 3 of the fair value hierarchy. The major assumptions used in the valuation for investment in private companies refer to Note 3.3.

19 Investments (Cont'd)

(iii) Preferred shares investments

During the year ended December 31, 2019, the Group made aggregate preferred shares investments of RMB2,675,086,000 (2018: RMB1,102,118,000). These investees are principally engaged in sales of goods and provision of internet services.

All of these investments are convertible redeemable preferred shares or ordinary shares with preferential rights. The Group has the right to require and demand the investees to redeem all of the shares held by the Group at guaranteed predetermined fixed amount upon redemption events which are out of control of issuers. Hence, these investments are accounted for as debt instruments and are measured at financial assets at fair value through profit or loss.

The conversion of the preference shares in Ninebot and Sunmi owned by the Group into ordinary shares was completed on April 17, 2019 and June 28, 2019, respectively, following which the Group reclassifies the investments to be accounted for using the equity method (Note 11(b)).

(iv) Amounts recognized in profit or loss

	Year ended December 31,	
	2019	**2018**
	RMB'000	**RMB'000**
Fair value changes on equity investments	2,322,349	(1,386,967)
Fair value changes on preferred shares investments	1,452,273	5,793,800
Fair value changes on short-term investments measured at fair value through profit or loss	38,390	23,526
	3,813,012	4,430,359

20 Loan receivables

	As of December 31,	
	2019	**2018**
	RMB'000	**RMB'000**
Unsecured loan	14,393,240	10,995,510
Less: credit loss allowance	(1,669,737)	(701,865)
	12,723,503	10,293,645

Loan receivables are loans derived from subsidiaries of the Group which engages in the fintech business. Such amounts are recorded at the principal amount less credit loss allowance. The loan periods extended by the Group to the individuals generally range from 3 months to 12 months. Loan receivables are mainly denominated in RMB.

Detail of the credit risk assessment of loan receivables is disclosed in Note 3.1.

21 Trade receivables

Trade receivables analysis is as follows:

	As of December 31,	
	2019	2018
	RMB'000	RMB'000
Third parties	6,740,321	5,302,432
Related parties	324,027	364,608
	7,064,348	5,667,040
Less: credit loss allowance	(115,781)	(68,597)
	6,948,567	5,598,443

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

	As of December 31,	
	2019	2018
	RMB'000	RMB'000
RMB	3,757,863	3,285,845
INR	1,758,770	1,464,621
US$	1,239,122	795,971
Others	192,812	52,006
	6,948,567	5,598,443

Movements on the Group's credit loss allowance of trade receivables are as follows:

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
At the beginning of the year	(68,597)	(56,820)
Credit loss allowance recognized, net	(79,712)	(11,777)
Receivables written off during the year as uncollectable	32,528	–
At the end of the year	(115,781)	(68,597)

21 Trade receivables (Cont'd)

(a) The Group generally allows a credit period within 180 days to its customers. Aging analysis of trade receivables based on invoice date is as follows:

	As of December 31,	
	2019	2018
	RMB'000	RMB'000
Trade receivables		
Up to 3 months	6,076,873	5,094,390
3 to 6 months	550,929	392,868
6 months to 1 year	308,197	116,279
1 to 2 years	98,643	16,630
Over 2 years	29,706	46,873
	7,064,348	5,667,040

(b) The Group applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected credit losses below also incorporate forward looking information. The loss provisions as of December 31, 2018 and 2019 are determined as follows:

	Current	Up to 3 months past due	3 to 6 months past due	Over 6 months past due	Total
December 31, 2019:					
Expected loss rate	0.03%	1.29%	9.55%	50.14%	
Gross carrying amount (in thousand)	5,822,380	856,086	222,699	163,183	7,064,348
Loss provision (in thousand)	1,627	11,066	21,269	81,819	115,781
December 31, 2018:					
Expected loss rate	0.01%	0.99%	34.22%	52.85%	
Gross carrying amount (in thousand)	4,992,793	532,901	64,006	77,340	5,667,040
Loss provision (in thousand)	562	5,261	21,902	40,872	68,597

As of December 31, 2019 and 2018, the majority of the balance of receivables are due from certain channel distributors and customers in mainland China and India who usually settle the amounts due by them within 180 days.

22 Prepayments and other receivables

	As of December 31,	
	2019	2018
	RMB'000	RMB'000
Receivables from subcontractors for outsourcing of raw materials and amounts paid for third parties	9,292,072	10,043,378
Recoverable value-added tax and other taxes	6,782,745	7,811,161
Prepayments to suppliers	394,090	467,418
Deposits to suppliers	375,868	569,598
Receivables from market development fund	895,773	822,809
Prepaid fees for patent expenses and other prepaid expenses	413,685	228,197
Receivables from import and export agents	186	52,263
Receivables from employees related to Employee Fund (Note (a))	103,900	110,950
Interest receivables	254,912	231,819
Receivables from disposal of investments	4,306	35,226
Loans to related parties (Note (b))	37,802	7,979
Receivables related to share options and RSUs granted to employees	862,545	–
Others	419,134	534,148
	19,837,018	20,914,946

Notes:

(a) *Receivables from employees related to Employee Fund is interest bearing and repayable when the employee resign from the Group. Further detail included in Note 28.*

(b) *Loans to related parties were unsecured, repayable on demand and carried interest rate at ceiling of 8% per annum (2018: 8%).*

As of December 31, 2019 and 2018, the carrying amounts of other receivables were primarily denominated in RMB and US$ and approximated their fair value at each of the reporting dates. Other receivables that are measured at amortized costs included receivables from subcontractors for outsourcing of raw materials and amounts paid for third parties, receivables from import and export agents, receivables from market development fund, receivables from employees related to Employee Fund, receivables from disposal of investments, interest receivables, loans to related parties, receivables related to share options and RSUs granted to employees and others were considered to be of low credit risk, and thus credit loss allowance recognized during the year ended December 31, 2019 and 2018 was limited to 12 months expected losses.

23 Inventories

	As of December 31,	
	2019	**2018**
	RMB'000	**RMB'000**
Raw materials	9,347,930	7,343,118
Finished goods	18,030,136	19,112,105
Work in progress	2,422,504	2,068,834
Spare parts	1,733,042	1,156,825
Others	1,925,785	1,651,854
	33,459,397	31,332,736
Less: provision for impairment (Note (a))	(873,959)	(1,852,051)
	32,585,438	29,480,685

Note:

(a) *Provision for impairment was recognized for the amount by which the carrying amount of the inventories exceeds its net realizable value, and was recorded in "cost of sales" in the consolidated income statements. The provision for impairment expense of inventory amounted to RMB3,859,675,000 for the year ended December 31, 2019 (2018: RMB3,006,525,000).*

Provision for impairment movements for the years ended December 31, 2019 and 2018 are as below:

	Year ended December 31,	
	2019	**2018**
	RMB'000	**RMB'000**
At the beginning of the year	(1,852,051)	(668,142)
Provision for impairment	(3,859,675)	(3,006,525)
Transfer to cost of sales upon sold	4,837,767	1,822,616
At the end of the year	(873,959)	(1,852,051)

24 Cash and bank balances

(a) *Cash and cash equivalents*

	As of December 31,	
	2019	**2018**
	RMB'000	**RMB'000**
Cash at bank and in hand	13,355,455	10,958,910
Short-term bank deposits with initial terms within three months	12,564,406	19,271,237
	25,919,861	30,230,147

24 Cash and bank balances (Cont'd)

(a) Cash and cash equivalents (Cont'd)

Cash and cash equivalents are denominated in the following currencies:

	As of December 31,	
	2019	**2018**
	RMB'000	**RMB'000**
US$	10,322,132	22,189,594
RMB	9,217,142	7,192,491
INR	3,500,056	532,838
Others	2,880,531	315,224
	25,919,861	30,230,147

The weighted average effective interest rate for the short-term bank deposits with initial terms within three months was 2.76% per annum for the year ended December 31, 2019 (2018: 3.24%).

(b) Restricted cash

As of December 31, 2019, among of the restricted cash, RMB700,987,000 was held at bank to meet requirements of People's Bank of China for reserves of payment institutions, US$84,260,000 (equivalent to approximately RMB587,815,000) was held at Bank of China as guarantee for bank loans, RMB149,427,000 was held at Bank of Ningbo as guarantee for bank acceptance bills.

(c) Short-term bank deposits

An analysis of the Group's short-term bank deposits as of December 31, 2019 and 2018 are listed as below:

	As of December 31,	
	2019	**2018**
	RMB'000	**RMB'000**
Short-term bank deposits denominated in RMB	–	460,000
Short-term bank deposits denominated in INR	392,823	49
Short-term bank deposits denominated in US$	20,597,231	905,942
Short-term bank deposits denominated in HK$	532,989	–
	21,523,043	1,365,991

24 Cash and bank balances (Cont'd)

(c) Short-term bank deposits (Cont'd)

Short-term bank deposits are bank deposits with original maturities over three months and redeemable on maturity.

The effective interest rate of the short-term bank deposits of the Group ranges from 2.38% to 7.30% per annum for the year ended December 31, 2019 (2018: from 2.25% to 6.00%).

25 Share capital and treasury shares

(a) Share capital

Authorized:

	Note	Number of ordinary shares	Nominal value of ordinary shares	Number of Preferred Shares	Nominal value of Preferred Shares
		'000	US$'000	'000	US$'000
As of January 1, 2018		3,489,594	87	1,051,251	26
Effect of Share Subdivision	(a)	31,406,344	–	9,461,254	–
Conversion of Preferred Shares to ordinary shares	(b)	10,512,505	26	(10,512,505)	(26)
Increase of authorized ordinary shares	(c)	224,591,557	561	–	–
As of December 31, 2018 and 2019		270,000,000	674	–	–

25 Share capital and treasury shares (Cont'd)

(a) Share capital (Cont'd)

Issued:

	Note	Number of ordinary shares	Nominal value of ordinary shares	Equivalent nominal value of ordinary shares	Share premium
		'000	US$'000	RMB'000	RMB'000
As of January 1, 2018		978,217	24	150	742,760
Acquisition of additional equity interests in non-wholly owned subsidiaries	(d)	1,500	–	–	230,899
Issuance of ordinary shares	(e)	63,960	2	11	9,827,146
Effect of Share Subdivision	(a)	9,393,092	–	–	–
Issuance of ordinary shares relating to initial public offering, net of underwriting commissions and other issuance costs	(f)	1,635,926	4	27	23,248,593
Conversion of Preferred Shares to ordinary shares	(b)	10,504,922	26	174	151,100,334
Release of ordinary shares from Share Scheme Trust	(g)	–	2	15	933,592
Issuance of ordinary shares to Share Scheme Trust	(g)	1,048,806	–	–	–
Share premium set off the accumulated losses and other reserves	(h)	–	–	–	(142,232,042)
As of December 31, 2018		23,626,423	58	377	43,851,282
Exercise of share options and RSUs		690,361	1	9	1,442,634
Shares repurchased and canceled		(227,956)	–	1	(1,882,527)
Issuance of ordinary shares to Share Scheme Trusts	(g)	18,567	–	–	—
Release of ordinary shares from Share Scheme Trusts	(g)	–	–	1	167,447
As of December 31, 2019		24,107,395	59	388	43,578,836

25 Share capital and treasury shares (Cont'd)

(a) Share capital (Cont'd)

Notes:

(a) On June 17, 2018, pursuant to the shareholders' resolution, each existing issued and unissued share of US$0.000025 each in the share capital of the Company were subdivided into 10 shares of US$0.0000025 each.

(b) Upon completion of the initial public offering ("IPO"), each issued Preferred Share converted into one Class B ordinary share by re-designation and reclassification of every Preferred Share in issue as an Class B ordinary share on a one for one basis and all the unissued and authorized Preferred Shares were re-designated and reclassified as Class B ordinary shares. As a result, the financial liabilities for Preferred Shares were derecognized and recorded as share capital and share premium.

(c) Upon completion of the re-designation and reclassification noted in (b), the authorized share capital of the Company increased 63,116,143,000 Class A ordinary shares of nominal value of US$0.0000025 each and 161,475,414,000 Class B ordinary shares of nominal value of US$0.0000025 each.

(d) Pursuant to the shareholders' resolution passed on March 30, 2018, 1,500,000 Class B ordinary shares (or 15,000,000 Class B ordinary shares following the Share Subdivision) were issued as consideration shares in exchange for certain indirect equity interests in subsidiary Timi Personal Computing Co., Ltd..

(e) On April 2, 2018, the Company issued 63,959,619 Class B ordinary shares (or 639,596,190 Class B ordinary shares following the Share Subdivision) at par value to Smart Mobile Holdings Limited, an entity whose interest is held on trust for the benefit of Lei Jun and his family members, to reward Lei Jun for his contribution to the Company. Accordingly, RMB9,827,157,000 was recognized as share-based compensation expenses on April 2, 2018 by the Group.

(f) Upon completion of the IPO, the Company issued 1,635,926,000 new shares at par value of US$0.0000025 each for cash consideration of HK$17.00 each, and raised gross proceeds of approximately HK$27,810,742,000 (equivalent to RMB23,525,107,000). The respective share capital amount was approximately RMB27,000 and share premium arising from the issuance was approximately RMB23,248,593,000, net of the share issuance costs. The share issuance costs paid and payable mainly include share underwriting commissions, lawyers' fees, reporting accountant's fee and other related costs, which are incremental costs directly attributable to the issuance of the new shares. These costs amounting to RMB276,487,000 were treated as a deduction against the share premium arising from the issuance.

(g) The Company issued ordinary shares with respect to the share options and RSUs under the employees share-based compensation scheme to be exercised by certain grantees of the Company to trusts, which were established to hold the shares for and on behalf of the grantees (collectively, "Share Scheme Trusts").

(h) On December 27, 2018, the Board of Directors passed a resolution that the sum of approximately of RMB142,232,042,000 standing to the credit of the share premium account of the Company was applied to set off the accumulated losses and other reserves of the Company. The accumulated losses of RMB136,652,570,000 was set off and the related currency translation difference of RMB5,579,472,000 was released.

25 Share capital and treasury shares (Cont'd)

(b) Treasury shares

	Number of shares '000	Amounts RMB'000
As of January 1, 2018 and 2019	–	–
Shares repurchased	358,196	2,932,111
Shares cancelled	(227,956)	(1,879,289)
As of December 31, 2019	130,240	1,052,822

During the year ended December 31, 2019, the Company repurchased its own ordinary shares on the Stock Exchange of Hong Kong Limited as follows:

Month/Year	Number of shares '000	Highest price paid per share HK$	Lowest price paid per share HK$	Aggregate price paid HK$
January 2019	19,972	10.20	9.74	199,931,233
June 2019	97,928	10.04	8.96	925,210,318
July 2019	7,610	10.00	9.70	74,840,553
September 2019	91,254	9.38	8.73	824,790,890
October 2019	31,115	9.12	8.82	280,023,901
November 2019	44,828	9.00	8.79	399,982,282
December 2019	65,489	9.09	8.85	589,464,196
Total	358,196			3,294,243,373

26 Other reserves

	Share-based compensation reserve	Currency translation differences	Statutory surplus reserve	General reserve	Capital reserve	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2019	5,333,233	43,442	862,680	–	(55,913)	263,973	6,447,415
Appropriation to statutory reserves (Note (a))	–	–	295,047	–	–	–	295,047
Appropriation to general reserves	–	–		2	–	–	2
Employees share-based compensation scheme:							
- value of employee services (Note (c) and Note 28)	2,127,878	–	–	–	–	–	2,127,878
- exercise of share options and restricted stock units	(1,184,767)	–	–	–	–	–	(1,184,767)
Share of other comprehensive income of investments accounted for using the equity method (Note 11(b))	–	–	–	–	–	9,279	9,279
Share of other reserves of investments accounted for using the equity method (Note 11(b))	–	–	–	–	229,740	–	229,740
Acquisition of additional equity interests in non-wholly owned subsidiaries	–	–	–	–	(173,904)	–	(173,904)
Currency translation differences (Note (b))	–	419,471	–	–	–	–	419,471
Release of ordinary shares from Share Scheme Trust (Note 25(a)(g))	(139,015)	–	–	–	–	–	(139,015)
At December 31, 2019	6,137,329	462,913	1,157,727	2	(77)	273,252	8,031,146

	Share-based compensation reserve	Currency translation differences	Statutory surplus reserve	Capital reserve	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2018	3,816,153	(3,779,938)	805,180	33,501	72,524	947,420
Appropriation to statutory reserves (Note (a))	–	–	57,808	–	–	57,808
Employees share-based compensation scheme:						
- value of employee services (Note (c) and Note 28)	2,358,720	–	–	–	–	2,358,720
Share of other comprehensive income of investments accounted for using the equity method (Note 11(b))	–	–	–	–	191,449	191,449
Share of other reserves of investments accounted for using the equity method (Note 11(b))	–	–	–	62,657	–	62,657
Acquisition of additional equity interests in non-wholly owned subsidiaries	–	–	–	(152,071)	–	(152,071)
Currency translation differences (Note (b))	–	(1,756,092)	–	–	–	(1,756,092)
Share premium set off the accumulated losses and other reserves (Note 25(a)(h))	–	5,579,472	–	–	–	5,579,472
Release of ordinary shares from Share Scheme Trust (Note 25(a)(g))	(841,640)	–	–	–	–	(841,640)
Others	–	–	(308)	–	–	(308)
At December 31, 2018	5,333,233	43,442	862,680	(55,913)	263,973	6,447,415

26 Other reserves (Cont'd)

Notes:

(a) *In accordance with the Company Law of the People's Republic of China and the stipulated provisions of the articles of association of subsidiaries with limited liabilities in mainland China, appropriation of net profits (after offsetting accumulated losses from prior years) should be made by these companies to their respective statutory surplus reserve funds and discretionary reserve funds before distributions are made to the owners. The percentage of appropriation to statutory surplus reserve fund is 10%. The amount to be transferred to discretionary reserve fund is determined by the equity owners of these companies. When the balance of the statutory surplus reserve fund reaches 50% of the registered capital, such transfer needs not to be made. Both statutory surplus reserve fund and discretionary reserves fund can be capitalized as capital of an enterprise, provided that the remaining statutory surplus reserve fund shall not be less than 25% of the registered capital.*

In addition, in accordance with the Law of the People's Republic of China on Enterprises with Foreign Investments and the stipulated provisions of the articles of association of wholly owned foreign subsidiaries in mainland China, appropriation from net profits (after offsetting accumulated losses brought forward from prior years) should be made by these companies to their respective reserve fund. The percentage of net profit to be appropriated to the reserve fund is not less than 10% of the net profit. When the balance of the reserve fund reaches 50% of the registered capital, such transfer needs not to be made. With approvals obtained from respective boards of directors of these companies, the Reserve Fund can be used to offset accumulated deficit or to increase capital.

(b) *Foreign currency translation reserve represents the difference arising from the translation of the financial statements of companies within the Group that have a functional currency different from the presentation currency of RMB for the financial statements of the Company and the Group.*

A majority of the currency translation differences are arising from the Company when it translates the financial statements from the functional currency of US$ to presentation currency of RMB.

(c) *Share-based compensation reserve arises from share-based payments granted to employees of the Group, see Note 28 for detail.*

27 Dividends

No dividends have been paid or declared by the Company during the years ended December 31, 2019 and 2018.

28 Share-based payments

On May 5, 2011, the Board of Directors of the Company approved the establishment of the "Xiaomi Corporation 2011 Employee Stock Option Plan" ("2011 Plan") with the purpose of attracting, motivating, retaining and rewarding certain employees and directors. The 2011 Plan is valid and effective for 10 years from the approval of the Board of Directors. The maximum number of shares that may be issued under 2011 Plan shall be 35,905,172 Class B ordinary shares (which were adjusted to 1,436,206,880 shares after the 1 to 4 share split on March 14, 2014 and further 1 to 10 Share Subdivision on June 17, 2018). The 2011 Plan permits the awards of options and RSUs.

Subsequently in August 2012, the 2011 Plan was superseded in its entirety as the "2012 Employee Stock Incentive Plan" ("Pre-IPO ESOP"). The purpose of Pre-IPO ESOP is same as the 2011 Plan. The Pre-IPO ESOP is valid and effective for 10 years from the approval of the Board of Directors. Through Pre-IPO ESOP, the Company may grant equity-based incentive up to 45,905,172 Class B ordinary shares initially (which were adjusted to 1,836,206,880 shares after the 1 to 4 share split on March 14, 2014 and further 1 to 10 Share Subdivision on June 17, 2018). The aggregate number of reserved Class B ordinary shares approved was 2,512,694,900 as of December 31, 2019 and 2018. The Pre-IPO ESOP permits the awards of options and RSUs.

On June 17, 2018, the Board of Directors of the Company adopted the principal terms of the Post-IPO Share Option Scheme. The purpose of Post-IPO Share Option Scheme is to provide selected participants with the opportunity to acquire proprietary interests in the Company and to encourage selected participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole. The total number of Class B ordinary shares available for grant under Post-IPO Share Option Scheme was 2,237,613,083 Class B ordinary shares. As of December 31, 2019, no option has been granted or agreed to be granted pursuant to Post-IPO Share Option Scheme.

On June 17, 2018, the Board of Directors of the Company adopted the principal terms of the Share Award Scheme. The purpose of the Share Award Scheme are (1) to align the interests of eligible persons with those of the Group through ownership of Class B ordinary shares, dividends and other distributions paid on Shares and/or the increase in value of the Class B ordinary shares, and (2) to encourage and retain eligible persons to make contributions to the long-term growth and profits of the Group. The aggregate number of Class B ordinary shares underlying all grants made pursuant to the Share Award Scheme will not exceed 1,118,806,541 shares without shareholders' approval.

Upon the Share Subdivision became effective, pro-rata adjustments have been made to the number of outstanding awarded shares, so as to give the participants the same proportion of the equity capital as that they were entitled to before the effect of the Share Subdivision. However, the number of share options, average exercise price per share option, fair value of share options, key assumptions of fair value of share options, number of RSUs and weighted average grant date fair value per RSU for the year ended December 31, 2018 stated below were before the adjustment for the Share Subdivision.

(Expressed in RMB unless otherwise indicated)

28 Share-based payments (Cont'd)

Pre-IPO ESOP

Share options granted to employees

The share options have graded vesting terms, and vest in different schedules from the grant date over one year, 2 years, 4 years, 5 years and 10 years, on condition that employees remain in service without any performance requirements. For vesting schedule as one year, all granted share options are vested on the first anniversary of the grant date. For vesting schedule as 2 years, 50% of the aggregate number of granted share options are vested on the first anniversary of the grant date, and remaining granted share options are vested in equal tranches every month over the next twelve months. For vesting schedule as 4 years, 50% of granted share options are vested on the second anniversary of the grant date, 25% of granted share options are vested on the third anniversary of the grant date, the remaining granted share options are vested on the fourth anniversary of the grant date. For vesting schedule as 5 years, 40% of granted share options are vested on the second anniversary of the grant date, and every 20% of granted share options are vested on the third, fourth and fifth anniversary of the grant date respectively. For vesting schedule as 10 years, the granted share options are vested through 10 years with 6% to 15% shares vested each year unequally.

Under Pre-IPO ESOP, the Company also granted performance-based share options to certain employees, which are generally vested over a 10-year term. The performance goals are determined by the Board of Directors. For those awards, evaluations are made as of each reporting period to assess the likelihood of performance criteria being met. Share-based compensation expenses are then adjusted to reflect the revision of original estimates.

The options may be exercised at any time and from time to time only after the closing of the QPO or upon the approval of Board of Directors for all or any portion of the share options that have become vested.

Movements in the number of share options granted to employees and their related weighted average exercise prices are as below:

	Number of share options	Average exercise price per share option (US$)
Outstanding as of January 1, 2019	1,433,597,913	0.10
Forfeited during the year	(54,982,220)	0.31
Transferred to Share Scheme Trust (Note 25(a)(g))	(42,306,480)	0.10
Exercised during the year	(480,507,306)	0.04
Outstanding as of December 31, 2019	855,801,907	0.12
Exercisable as of December 31, 2019	340,290,647	0.20
Outstanding as of January 1, 2018 (Note (a))	189,755,311	1.05
Granted during the year (Note (a))	42,500,561	1.98
Forfeited during the year (Note (a))	(3,857,990)	3.26
Transferred to Share Scheme Trust (Note (a), Note 25(a)(g))	(85,038,091)	1.58
Effect of Share Subdivision (Note (b))	1,290,238,122	
Outstanding as of December 31, 2018	1,433,597,913	0.10
Exercisable as of December 31, 2018	703,071,315	0.09

(Expressed in RMB unless otherwise indicated)

28 Share-based payments (Cont'd)

Pre-IPO ESOP (Cont'd)

Share options granted to employees (Cont'd)

Notes:

(a) *The numbers of shares were presented as before the effect of the Share Subdivision.*

(b) *It represented the effects of adjustments made to the numbers of shares as a result of the Share Subdivision.*

The weighted-average remaining contract life for outstanding share options was 6.22 years as of December 31, 2019 (2018: 6.60 years).

Fair value of share options

Prior to the completion of IPO on July 9, 2018, the Group has used the discounted cash flow method to determine the underlying equity fair value of the Company and adopted equity allocation model to determine the fair value of the underlying ordinary shares. Key assumptions, such as discount rate and projections of future performance, are determined by the Group with best estimate.

Based on fair value of the underlying ordinary shares, the Group has used Binomial option-pricing model to determine the fair value of the share option as of the grant date. Key assumptions are set as below:

	Year ended December 31, 2018
Fair value per share (Note (a))	US$22.99-24.48
Exercise price (Note (a))	US$1.02-3.44
Risk-free interest rate	3.12%-3.68%
Dividend yield	–
Expected volatility	41.57%-43.21%
Expected terms	10 years

Note:

(a) *The fair value per share and the exercise price presented was before the effect of the Share Subdivision.*

The weighted-average fair value of granted shares was US$21.80 (which was adjusted to US$2.18 after the Share Subdivision on June 17, 2018) per share for the year ended December 31, 2018.

(Expressed in RMB unless otherwise indicated)

28 Share-based payments (Cont'd)

Pre-IPO ESOP (Cont'd)

RSUs granted to employees

The Company also granted RSUs to the Company's employees under Pre-IPO ESOP. The RSUs granted would vest on the second anniversary from the grant date, and in equal tranches over the remaining years of total vesting period as four or five years, on condition that employees remain in service without any performance requirements.

The RSUs may be settled at any time and from time to time only after the closing of the QPO or upon the approval of Board of Directors for all or any portion of the RSUs that have become vested.

Movements in the number of RSUs granted to the Company's employees under Pre-IPO ESOP and the respective weighted-average grant date fair value are as follows:

	Number of RSUs	Weighted average grant date fair value per RSU (US$)
Outstanding as of January 1, 2019	207,161,980	0.23
Exercised during the year	(207,161,980)	0.23
Outstanding as of December 31, 2019	–	–
Vested as of December 31, 2019	–	–
Outstanding as of January 1, 2018 (Note (a))	24,492,747	2.94
Forfeited during the year (Note (a))	(3,776,549)	6.36
Effect of Share Subdivision (Note (b))	186,445,782	
Outstanding as of December 31, 2018	207,161,980	0.23
Vested as of December 31, 2018	206,921,978	0.23

Notes:

(a) *The numbers of shares were presented as before the effect of the Share Subdivision.*

(b) *It represented the effects of adjustments made to the numbers of shares as a result of the Share Subdivision.*

Prior to the completion of IPO on July 9, 2018, the Group has used the discounted cash flow method to determine the underlying equity fair value of the Company and adopted equity allocation model to determine the fair value of the underlying ordinary share. Key assumptions, such as discount rate and projections of future performance, are required to be determined by the Group with best estimate.

The fair value of each RSU at the grant dates were determined by reference to the fair value of the ordinary shares of the Company that issued to its shareholders.

The total expenses recognized in the consolidated income statement for aforementioned share-based awards granted to the Group's employees are RMB1,898,081,000 for the year ended December 31, 2019 (2018: RMB2,358,917,000).

28 Share-based payments (Cont'd)

Pre-IPO ESOP (Cont'd)

Share based awards granted to Lei Jun

On April 2, 2018, the Company issued 63,959,619 Class B ordinary shares (or 639,596,190 Class B ordinary shares following the Share Subdivision) at par value to Smart Mobile Holdings Limited, an entity whose interest is held on trust for the benefit of Lei Jun and his family members, to reward Lei Jun for his contribution to the Company. Accordingly, RMB9,827,157,000 was recognized as share-based compensation expenses on April 2, 2018 by the Group.

On June 17, 2018, Lei Jun was granted 42,070,000 share options in Xiaomi Finance Inc. ("Xiaomi Finance") pursuant to the first share option scheme adopted by Xiaomi Finance. Such share options were vested immediately and Lei Jun can exercise these share options with exercise price of RMB3.8325 for each share option for the following 20 years commencing on June 17, 2018. Based on fair value of the underlying ordinary shares, the Group has used Binomial option-pricing model to determine the fair value of the share option as the grant date. Key valuation assumptions include discount rate (post-tax) of 18.5%, risk-free interest rate of 3.99%, volatility of 46%. Accordingly, RMB102,608,000 was recognized as share-based compensation expenses on June 17, 2018 by the Group.

Share Award Scheme

RSUs granted to employees

The Company granted performance-based RSUs to the Company's employees under Share Award Scheme. The RSUs granted would vest in different schedules from the service commencement date over one year, 4 years, 5 years and 10 years, on condition that employees remain in service and certain performance criteria is met. For vesting schedule as one year, all granted RSUs are vested on the first anniversary of the service commencement date. For vesting schedule as 4 years, 25% of granted RSUs are vested on every anniversary of the service commencement date over the vesting period. For vesting schedule as 5 years, 40% of granted RSUs are vested on the second anniversary of the service commencement date, and every 20% of granted RSUs are vested on the third, fourth and fifth anniversary of the service commencement date respectively. For vesting schedule as 10 years, 20% of granted RSUs are vested on the second anniversary of the service commencement date, and every 10% of granted RSUs are vested on anniversaries of the service commencement date over the rest of the vesting period. The performance goals are determined by the Board of Directors. Evaluations are made as of each reporting period to assess the likelihood of performance criteria being met. Share-based compensation expenses are then adjusted to reflect the revision of original estimates.

(Expressed in RMB unless otherwise indicated)

28 Share-based payments (Cont'd)

Share Award Scheme (Cont'd)

RSUs granted to employees (Cont'd)

Movements in the number of RSUs granted to the Company's employees granted under Share Award Scheme and the respective weighted average grant date fair value are as below:

	Number of RSUs	Weighted average grant date fair value per RSU (US$)
Outstanding as of January 1, 2019	–	–
Granted during the year	98,449,031	1.20
Forfeited during the year	(5,415,702)	1.22
Transferred to Share Scheme Trust (Note 25(a)(g))	(234,396)	1.45
Exercised during the year	(2,692,000)	1.39
Outstanding as of December 31, 2019	90,106,933	1.20
Exercisable as of December 31, 2019	40,000	1.45

The weighted-average remaining contract life for outstanding RSUs granted under Share Award Scheme was 9.45 years as of December 31, 2019.

The fair value of the awarded shares was calculated based on the market price of the Company's shares at the respective grant date.

The total expenses recognized in the consolidated income statement for RSUs granted to the Group's employees under Share Award Scheme are RMB229,886,000 for the year ended December 31, 2019.

Employee fund

On August 31, 2014, the Board of Directors of the Company approved the establishment of Employee Fund with the purpose of which is to invest in companies within the business ecosystem of the Group. The Company invited certain employees to participate, with the condition that they would only receive the original investment sum with interest should they decide to resign from the Group within 5 years from the establishment date (the "Lockup Period"). Upon the end of the Lockup Period, the holders would become the equity holders of the Employee Fund. According to the arrangement of Employee Fund, the equity holders of the Employee Fund can demand the Company to buy back the shares at fair value or continue to hold the shares when they resign after the Lockup Period. The Group measures the liability related to cash-settled share-based payments at fair value as of December 31, 2019.

The total expenses recognized in the consolidated income statement for the Employee Fund granted to the Group's employees are RMB73,755,000 for the year ended December 31, 2019 (2018: RMB91,986,000).

29 Other non-current liabilities

	As of December 31,	
	2019	2018
	RMB'000	RMB'000
Liabilities to fund investors (Note (a))	3,074,210	2,823,504
Lease liability (Note 16)	560,804	–
Others	121,197	21,355
	3,756,211	2,844,859

Note:

(a) *It represents the funds raised by the third party investors under Hubei Xiaomi Yangtze River Industry Investment Fund Partners (Limited Partnership) (湖北小米長江產業基金合夥企業(有限合夥)) (the "Hubei Fund"). The Group controls the Hubei Fund as the Group is exposed to and has rights to variable returns from its involvement with the Hubei Fund and has the ability to affect those returns through its power over the Hubei Fund. For the amount raised from limited partners, the Group has contractual obligation to settle the liability with the limited partners and therefore is classified as a financial liability measured at amortized cost in the consolidated financial statements. The carrying amount of this financial liability approximates to its fair value.*

30 Trade payables

Trade payables primarily include payables for inventories and royalty fees. As of December 31, 2019 and 2018, the carrying amounts of trade payables were primarily denominated in RMB, US$ and INR.

Trade payables and their aging analysis based on invoice date are as follows:

	As of December 31,	
	2019	2018
	RMB'000	RMB'000
Up to 3 months	57,942,872	44,312,748
3 to 6 months	1,136,595	1,656,699
6 months to 1 year	342,864	266,623
1 to 2 years	55,709	50,350
Over 2 years	49,900	851
	59,527,940	46,287,271

31 Other payables and accruals

	As of December 31,	
	2019	2018
	RMB'000	RMB'000
Amounts collected for third parties	1,428,500	1,628,230
Payroll and welfare payables	1,165,183	795,593
Deposits payable	1,114,853	953,132
Employee Fund (Note 28)	604,187	553,108
Accrual expenses	1,202,807	499,295
Payables for construction cost	1,275,467	619,935
Payables for investments	2,500	222,382
Other taxes payables	624,350	192,182
Lease liabilities (Note 16)	399,444	–
Payables related to share options and RSUs granted to employees	484,896	–
Others	799,156	848,913
	9,101,343	6,312,770

The carrying amounts of other payables were primarily denominated in RMB and approximate their fair values as of December 31, 2019 and 2018.

32 Advance from customers

Advance from customers primarily includes advance from customers when the Group receives payments in advance of the delivery of products or performance of services.

Contract liabilities are presented in advance from customers, which are the Group's obligations to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. As of December 31, 2019, the total contract liabilities amounted to RMB7,248,982,000 (2018: RMB4,054,595,000), which will be recognized as revenue within one year.

33 Borrowings

	As of December 31,	
	2019	2018
	RMB'000	RMB'000
Included in non-current liabilities		
Asset-backed securities (Note (a))	2,305,000	2,752,815
Fund raised through trusts (Note (b))	450,000	–
Secured borrowings (Note (c))	1,825,856	1,260,941
Unsecured borrowings (Note (d))	206,000	3,842,387
	4,786,856	7,856,143
Included in current liabilities		
Asset-backed securities (Note (a))	2,647,641	586,282
Fund raised through trusts (Note (b))	420,000	648,390
Secured borrowings (Note (c))	1,796,701	–
Unsecured borrowings (Note (d))	7,972,213	1,840,522
	12,836,555	3,075,194

33 Borrowings (Cont'd)

Notes:

(a) *The Group has securitized certain loan receivables and completed several rounds of issuance of its asset-backed securities ("ABS"). As of December 31, 2019, the total ABS amounting to RMB4,952,641,000 (2018: RMB3,339,097,000) bore interest at 4.15%-7.74% per annum.*

(b) *The Group has securitized certain loan receivables and raised several rounds of funds through third party trusts. As of December 31, 2019, the fund raised through trust amounting to RMB870,000,000 (2018: RMB648,390,000) bore interest at 7.29%-8.00% per annum in 2019. The Group is committed to unconditionally repurchase the aforementioned securitized loan receivables. The balance will mature in 2020 and 2021.*

(c) *As of December 31, 2019, RMB2,225,856,000 (2018: RMB1,260,941,000) of borrowings were secured by construction in progress and land use rights amounting to approximately RMB4,082,853,000 (2018: RMB4,082,853,000). The interest rate of these borrowings was 4.66%-4.90% per annum. RMB400,000,000 of these borrowings should be repaid in 2020, the remaining amounts with RMB1,443,920,000 should be repaid by the end of March 23, 2027, RMB63,387,000 should be repaid by the end of December 12, 2027 and RMB318,549,000 should be repaid by the end of September 27, 2032.*

As of December 31, 2019, RMB808,886,000 (2018: nil) of short term borrowings were secured by commercial paper, RMB587,815,000 (2018: nil) of short term borrowings were secured by restricted deposits.

(d) *As of December 31, 2019, the Group had US$500,000,000 (equivalent to approximately RMB3,488,100,000) unsecured borrowings relating to a three-year bank loan facility agreement entered into on July 26, 2017 with the available commitment US$1,000,000,000 (equivalent to approximately RMB6,976,200,000) including US$500,000,000 (equivalent to approximately RMB3,488,100,000) term loan and US$500,000,000 (equivalent to approximately RMB3,488,100,000) revolving loan, which should be repaid by the Group on July 25, 2020.*

The Group had RMB1,411,718,000 (2018: nil) unsecured borrowings with interest rate 4.20% per annum, RMB77,923,000 (2018: nil) unsecured borrowings with interest rate 2.82% per annum, RMB249,216,000 (2018: nil) unsecured borrowings with interest rate 4.13% per annum, RMB190,000,000 (2018: nil) unsecured borrowings with interest rate 6.43% per annum, RMB1,500,000,000 (2018: nil) unsecured borrowings with interest rate 2.92% per annum, RMB667,763,000 (2018: nil) unsecured borrowings with interest rate 6-month London Inter Bank Offered Rate ("LIBOR") + 1% per annum. All of these borrowings should be repaid by the Group in 2020.

The Group had RMB400,000,000 (2018: nil) of borrowings with interest rate 6.00% per annum secured by intra-group companies, which should be repaid by the Group in 2020.

The Group had RMB206,000,000 (2018: nil) unsecured borrowings with interest rate 4.66% per annum which should be repaid by the end of November 26, 2029.

For the year ended December 31, 2019, the interest rate of the interest-bearing liabilities ranges from 2.82% to 8.00% per annum (2018: from 2.22% to 9.00%).

34 Deferred income taxes

Deferred income taxes are calculated in full on temporary differences under the liability method using the tax rates at which are expected to be applied at the time of reversal of the temporary differences.

The amount of offsetting deferred income tax assets and liabilities is RMB122,961,000 as of December 31, 2019 (2018: RMB93,750,000). The analysis of deferred income tax assets and liabilities before offsetting is as follows:

	As of December 31,	
	2019	**2018**
	RMB'000	**RMB'000**
Deferred income tax assets:		
- to be recovered after 12 months	560,577	625,671
- to be recovered within 12 months	845,799	780,324
	1,406,376	1,405,995
Deferred income tax liabilities:		
- to be settled after 12 months	(700,275)	(870,082)
- to be settled within 12 months	(2,588)	(1,313)
	(702,863)	(871,395)

The gross movement on the deferred income tax assets is as follows:

	Year ended December 31,	
	2019	**2018**
	RMB'000	**RMB'000**
At the beginning of the year	1,405,995	721,389
Credited to the consolidated income statement	381	684,606
At the end of the year	1,406,376	1,405,995

The gross movement on the deferred income tax liabilities is as follows:

	Year ended December 31,	
	2019	**2018**
	RMB'000	**RMB'000**
At the beginning of the year	(871,395)	(1,148,464)
Credited to the consolidated income statement	168,532	280,619
Acquisition of a subsidiary	–	(3,550)
At the end of the year	(702,863)	(871,395)

34 Deferred income taxes (Cont'd)

The movement in deferred income tax assets and liabilities during the years without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred income tax assets:

	Accrued liabilities and provisions	Provision for impairment of inventories	Depreciation of property and amortization of intangible assets	Tax losses	Fair value changes of financial assets	Credit loss allowance	Unrealized gain on intra-group transactions	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2019	231,460	385,369	93,677	359,199	80,341	92,961	156,440	6,548	1,405,995
Credited/(debited) to consolidated income statement	100,898	(265,570)	(4,192)	13,707	274	49,892	94,350	11,022	381
At December 31, 2019	332,358	119,799	89,485	372,906	80,615	142,853	250,790	17,570	1,406,376
At January 1, 2018	267,649	148,193	93,119	62,019	55,991	41,186	44,696	8,536	721,389
(Debited)/credited to consolidated income statement	(36,189)	237,176	558	297,180	24,350	51,775	111,744	(1,988)	684,606
At December 31, 2018	231,460	385,369	93,677	359,199	80,341	92,961	156,440	6,548	1,405,995

Deferred income tax assets are recognized for deductible temporary differences to the extent that the realization of the related tax benefits through future taxable profits is probable.

As of December 31, 2019, the Group did not recognize deferred income tax assets of RMB966,068,000 (2018: RMB520,995,000), in respect of deductible temporary differences and cumulative tax losses amounting RMB3,479,308,000 (2018: RMB2,293,425,000), that can be carried forward against future taxable income. The tax losses as of December 31, 2019 amounting to RMB27,395,000 (2018: RMB11,237,000) can be carried forward indefinitely, and the remaining amount of RMB3,377,006,000 (2018: RMB2,025,938,000) will expire within 9 years (2018: 10 years).

34 Deferred income taxes (Cont'd)

The movement in deferred income tax assets and liabilities during the years without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows (continued):

Deferred income tax liabilities:

	Changes in fair value of financial assets	Business combination	Total
	RMB'000	RMB'000	RMB'000
At January 1, 2019	(868,381)	(3,014)	(871,395)
Credited to consolidated income statement	168,106	426	168,532
At December 31, 2019	(700,275)	(2,588)	(702,863)
At January 1, 2018	(1,147,419)	(1,045)	(1,148,464)
Credited to consolidated income statement	279,038	1,581	280,619
Acquisition of a subsidiary	–	(3,550)	(3,550)
At December 31, 2018	(868,381)	(3,014)	(871,395)

35 Convertible redeemable preferred shares

Since the date of incorporation, the Company has completed several rounds of financing by issuing Preferred Shares. On July 9, 2018, the Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited and made an offering of 2,179,585,000 Class B ordinary shares (excluding any Class B ordinary shares issued pursuant to the exercise of the over-allotment option) at a price at HK$17.00 per share. All Preferred Shares were converted into Class B ordinary shares upon completion of the IPO on July 9, 2018. The fair value of each of Preferred Share on the conversion date is the Offer Price in the Global Offering. The movement of the Preferred Shares for the year ended December 31, 2018 is set out as below:

	RMB'000
At January 1, 2018	161,451,203
Changes in fair value	(12,514,279)
Currency translation differences	2,163,584
Conversion to ordinary shares	(151,100,508)
At December 31, 2018	–

Changes in fair value of Preferred Shares were recorded in "fair value changes of convertible redeemable preferred shares" in the consolidated income statement. Management considered that fair value changes in the Preferred Shares that are attributable to changes of credit risk of this liability are not significant.

36 Cash flow information

(a) Cash generated from operations

	Year ended December 31, 2019	2018
	RMB'000	RMB'000
Profit before income tax	12,162,646	13,927,124
Adjustments for:		
- Depreciation of property and equipment, right-of-use assets and investment properties	895,273	219,523
- Amortization of intangible assets	485,786	528,693
- Gain on disposal of property and equipment	(5,909)	(10,295)
- Credit loss allowance for trade and other receivables	83,357	33,211
- Credit loss allowance for loan receivables	1,015,619	607,180
- Impairment provision for inventories	3,859,675	3,006,525
- Interest income	(930,889)	(601,065)
- Interest expense	528,460	384,692
- Dividend income	(347,205)	(131,804)
- Share of losses of investments accounted for using the equity method	671,822	614,920
- Remeasurement of investments transferring from financial assets measured at fair value through profit or loss to investments accounted for using the equity method	–	(126,614)
- Net gains on disposals of long-term investments measured at fair value through profit or loss	–	(28,176)
- Losses on disposal of an investment accounted for using the equity method	13,376	–
- Fair value changes of convertible redeemable preferred shares	–	(12,514,279)
- Fair value gains on long-term investments measured at fair value through profit or loss	(3,813,012)	(4,430,359)
- Share-based compensation	2,201,722	12,380,668
- Foreign exchanges (gains)/losses, net	(34,632)	14,550
- Investment income from short-term investments measured at fair value through profit or loss	(386,461)	(335,695)
- Investment income from short-term investments measured at amortized cost	–	(20,199)
Operating cash flows before changes in working capital		
- Increase in inventories	(6,964,428)	(16,114,975)
- Increase in trade receivables	(1,276,714)	(91,003)
- Increase in loan receivables	(3,448,312)	(2,752,183)
- Decrease/(increase) in prepayments and other receivables	1,956,740	(9,463,591)
- (Increase)/decrease in restricted cash	(136,394)	294,753
- Increase in trade payables	13,534,575	12,627,385
- Increase in advance from customers	3,758,590	1,050,583
- Increase/(decrease) in warranty provision	983,654	(51,600)
- Increase in other payables and accruals	1,045,058	1,118,058
- Increase/(decrease) in other non-current liabilities	99,842	(13,856)
Cash generated from operations	25,952,239	122,171

36 Cash flow information (Cont'd)

(b) Proceeds from disposal of property and equipment

In the consolidated statement of cash flows, proceeds from sale of property and equipment comprise:

	Year ended December 31,	
	2019	**2018**
	RMB'000	**RMB'000**
Net book amount (Note 14)	61,826	17,072
Gain on disposal of property and equipment	5,909	10,295
Proceeds from disposal of property and equipment	67,735	27,367

(c) Non-cash transactions

Other than addition of right-of-use assets and lease liabilities described in Note 16, and the reclassification of the investment in associates measured at fair value through profit or loss to investment accounted for using the equity method as described in Note 11(b), there were no material non-cash transactions for the year ended December 31, 2019.

36 Cash flow information (Cont'd)

(d) Reconciliation of liabilities generated from financing activities

	Liabilities from financing activities					
	Borrowing due within 1 year	Borrowing due after 1 year	Convertible redeemable preferred shares	Interest payable	Lease liabilities	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Liabilities from financing activities as of January 1, 2019	3,075,194	7,856,143	–	96,192	858,833	11,886,362
Cash flows	1,790,061	4,829,238	–	(218,994)	(578,063)	5,822,242
Accrued interest expenses	–	–	–	201,761	–	201,761
Foreign exchange adjustments	(52,214)	108,711	–	–	–	56,497
Reclassification from non-current to current	8,024,034	(8,024,034)	–	–	–	–
Leases	–	–	–	–	679,478	679,478
Others	(520)	16,798	–	–	–	16,278
Liabilities from financing activities as of December 31, 2019	12,836,555	4,786,856	–	78,959	960,248	18,662,618
Liabilities from financing activities as of January 1, 2018	3,550,801	7,251,312	161,451,203	5,742	–	172,259,058
Cash flows	(5,928,062)	5,691,840	–	(243,966)	–	(480,188)
Accrued interest expenses	–	–	–	334,416	–	334,416
Fair value changes of convertible redeemable preferred shares	–	–	(12,514,279)	–	–	(12,514,279)
Foreign exchange adjustments	(14,290)	418,950	2,163,584	–	–	2,568,244
Conversion of Preferred Shares to ordinary shares	–	–	(151,100,508)	–	–	(151,100,508)
Reclassification from non-current to current	5,466,745	(5,466,745)	–	–	–	–
Others	–	(39,214)	–	–	–	(39,214)
Liabilities from financing activities as of December 31, 2018	3,075,194	7,856,143	–	96,192	–	11,027,529

37 Contingencies

The Group did not have any material contingent liabilities as of December 31, 2019 and 2018.

38 Commitments

(a) Capital commitments

Capital expenditure contracted for at the end of the years but not yet incurred is as follows:

	As of December 31,	
	2019	**2018**
	RMB'000	**RMB'000**
Property and equipment	1,747,044	1,825,343
Intangible assets	28,810	57,778
Investments	217,506	137,176
	1,993,360	2,020,297

(b) Operating lease commitments

The Group leases offices, warehouses, retail stores and servers under non-cancellable operating lease agreements. The Group's future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As of December 31,	
	2019	**2018**
	RMB'000	**RMB'000**
Not later than 1 year	305,186	560,926
Later than 1 year and not later than 5 years	–	385,038
Later than 5 years	–	83,276
	305,186	1,029,240

From January 1, 2019, in accordance with IFRS 16, the Group has recognized right-of-use assets for these leases, except for certain short-term leases, see Note 16 for further information.

39 Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operational decisions. Parties are also considered to be related if they are subject to common control. Members of key management and their close family members of the Group are also considered as related parties.

The following significant transactions were carried out between the Group and its related parties during the periods presented. In the opinion of the directors of the Company, the related party transactions were carried out in the normal course of business and at terms negotiated between the Group and the respective related parties.

(Expressed in RMB unless otherwise indicated)

39 Related party transactions (Cont'd)

(a) Names and relationships with related parties

The following companies are related parties of the Group that had significant transactions and/or balances with the Group during the year.

Company	Relationship
Nanchang Blackshark Technology Co., Ltd. (Note 11(b))	Associate of the Group
Beijing iQIYI Science & Technology Co., Ltd. (Note 11(b))	Associate of the Group
Shanghai iQIYI Culture Media Co., Ltd. (Note 11(b))	Associate of the Group
Beijing Particle Information Technology Co., Ltd. (Note (a))	Associate of the Group
Foshan Yunmi Electric Appliances Technology Co., Ltd. (Note 11(b))	Associate of the Group
Zhuhai Kingsoft Online Game Technology Co., Ltd.	Associate of the Group
Beijing Kingsoft Cloud Technology Co., Ltd.	Associate of the Group
Chengdu Qushui Science and Technology Co., Ltd. (Note (a))	Associate of the Group
Anhui Huami Information Technology Co., Ltd. (Note 11(b))	Associate of the Group
Beijing SmartMi Electronic Technology Co., Ltd. (Note (a))	Associate of the Group
Jiangsu Zimi Electronic Technology Co., Ltd. (Note (a))	Associate of the Group
Shenzhen Rock Times Technology Co., Ltd. (Note 11(b))	Associate of the Group
Tiinlab Acoustic Technology Ltd. (Note (a))	Associate of the Group
Dongguan Yingsheng Electronic Technology Co., Ltd.	Associate of the Group
Shanghai Chuangmi Technology Co., Ltd. (Note (a))	Associate of the Group
Shanghai Runmi Technology Co., Ltd. (Note (a))	Associate of the Group
Soocare (Shenzhen) Technology Co., Ltd. (Note (a))	Associate of the Group
Ningbo Minij Trading Co., Ltd.	Associate of the Group
Shenzhen Lumi Technology Co., Ltd. (Note (a))	Associate of the Group
Zimi Communication Technology (Jiangsu) Co., Ltd.	Associate of the Group
Longcheer Technology (Huizhou) Co., Ltd. (Note 11(b))	Associate of the Group
Shanghai Chunmi Electronic Technology Co., Ltd. (Note (a))	Associate of the Group
Qingdao Yeelink Information Technology Co., Ltd. (Note (a))	Associate of the Group
21 Vianet Group Inc.	Associate of the Group
Beijing Fengmi Technology Co., Ltd. (Note (a))	Associate of the Group
Liesheng Technology (Dongguan) Co., Ltd.	Associate of the Group
Chunmi Technology (Wuhu) Co., Ltd. (Note (a))	Associate of the Group
Nanchang Longcheer Technology Co., Ltd (Note 11(b))	Associate of the Group
Forewin FPC (Suzhou) Co., Ltd. (Note (a))	Associate of the Group
ChingMi (Beijing) Technology Co., Ltd. (Note 11(b))	Associate of the Group
Shanghai Minij Internet Technology Co., Ltd. (Note (a))	Associate of the Group
Guolong Information Technology (Shanghai) Co., Ltd.	Associate of the Group
Dreame Technology (Tianjin) Ltd. (Note (a))	Associate of the Group
Hannto Technology Co., Ltd. (Note (a))	Associate of the Group
LeXiu Technology (Hangzhou) Co., Ltd. (Note (a))	Associate of the Group

(Expressed in RMB unless otherwise indicated)

39 Related party transactions (Cont'd)

(a) Names and relationships with related parties (Cont'd)

Company	Relationship
Zhejiang Xingyue Electric Equipment Co., Ltd. (Note (a))	Associate of the Group
PL-Mi (Shanghai) Co., Ltd. (Note 11(b))	Associate of the Group
Beijing Yuemi Technology Co., Ltd. (Note 11(b))	Associate of the Group
QingHeXiaoBei (Wuxi) Inc.	Associate of the Group
Nanjing Jiqidao Smart Technology Co., Ltd.	Associate of the Group
Miaobo Software Technology (Shanghai) Co., Ltd. (Note 11(b))	Associate of the Group
Beijing Miiiw Technology Co., Ltd. (Note (a))	Associate of the Group
Dongguan Powerise Fashion Technology Co., Ltd. (Note (a))	Associate of the Group
Qiji (Xiamen) Technology Co., Ltd. (Note (a))	Associate of the Group
Turok Steinhardt (Beijing) Optical Technology Co., Ltd. (Note (a))	Associate of the Group
Tianjin Smate Technology Co., Ltd. (Note (a))	Associate of the Group
Beijing KingSmith Technology Co., Ltd. (Note (a))	Associate of the Group
Shanghai Kaco Industrial Co., Ltd. (Note (a))	Associate of the Group
Beijing Madv Technology Co., Ltd. (Note (a))	Associate of the Group
XiaoHou Technology Co., Ltd. (Note (a))	Associate of the Group
Shoulder Electronics Ltd. (Note (a))	Associate of the Group
Qingping Technology (Beijing) Co., Ltd. (Note (a))	Associate of the Group
Ningbo Sawadika Electrical Appliance Co., Ltd. (Note (a))	Associate of the Group
Shanghai Sunmi Technology Co., Ltd. (Note (a))	Associate of the Group
MiaoMiaoCe Technology (Beijing) Co., Ltd. (Note (a))	Associate of the Group
Sichuan Xin Wang Bank Co., Ltd. (Note 11(b))	Associate of the Group
Shanghai Longcheer Technology Co., Ltd. (Note 11(b))	Associate of the Group
Beijing Runzhi Commercial Management Co., Ltd.	Associate of the Group
Shunwei Ventures II (Hong Kong) Ltd.	Controlled by a director
China Resources Land Construction Business Unit	Associate of the Group
Nanjing Bigfish Semiconductor Company Ltd. (Note 11(b))	Associate of the Group
Zhuhai Samyou Environmental Technology Co., Ltd. (Note 11(b))	Associate of the Group
Khorgos Puli Network Technology Co., Ltd.	Associate of the Group
Blackshark H.K. Ltd. (Note 11(b))	Associate of the Group
Beijing Xiaomi Insurance Co., Ltd. (Note 11(b))	Associate of the Group

Notes:

(a) The Group's investments were made in the form of ordinary shares with preferential rights or convertible redeemable preferred shares which are accounted as financial assets measured at fair value through profit or loss.

39 Related party transactions (Cont'd)

(b) Significant transactions with related parties

	Year ended December 31, 2019 RMB'000	2018 RMB'000
(i) Sales of goods and services		
Associates of the Group	1,666,141	1,153,491
Associates of Lei Jun	2,156	25,376
	1,668,297	1,178,867
(ii) Purchases of goods and services		
Associates of the Group	27,221,258	18,634,514
Associates of Lei Jun	517	14,768
	27,221,775	18,649,282

(c) Year end balances with related parties

	As of December 31, 2019 RMB'000	2018 RMB'000
(i) Trade receivables from related parties		
Associates of the Group	324,027	361,792
Associates of Lei Jun	–	2,816
	324,027	364,608
(ii) Trade payables to related parties		
Associates of the Group	6,061,497	4,004,778
Associates of Lei Jun	1,829	1,916
	6,063,326	4,006,694

39 Related party transactions (Cont'd)

(c) Year end balances with related parties (Cont'd)

	As of December 31, 2019 RMB'000	As of December 31, 2018 RMB'000
(iii) Other receivables from related parties		
Associates of the Group	373,071	243,126
(iv) Other payables to related parties		
Associates of the Group	861,736	770,032
Controlled by a director	79,466	76,966
Associates of Lei Jun	7,476	7,652
	948,678	854,650
(v) Prepayments		
Associates of the Group	136,899	88,289
(vi) Advance from customers		
Associates of the Group	28,308	35,862
Associates of the Lei Jun	14	14
	28,322	35,876

All the balances with related parties above were unsecured, non-interest bearing and repayable within one year.

(d) Loans to related parties

	Year ended December 31, 2019 RMB'000	Year ended December 31, 2018 RMB'000
Loans to associates:		
At the beginning of the year	7,979	62,143
Loans advanced	34,934	50,000
Loans repaid	(6,000)	(103,116)
Interest charged	962	1,921
Interest received	(70)	(2,210)
Currency translation differences	(3)	(759)
At the end of the year	37,802	7,979

39 Related party transactions (Cont'd)

(e) Loans from related parties

	Year ended December 31,	
	2019	**2018**
	RMB'000	**RMB'000**
Loans from associates:		
At the beginning of the year	–	51,336
Loans repaid	–	(50,958)
Interest charged	–	146
Interest paid	–	(855)
Currency translation differences	–	331
At the end of the year	–	–

(f) Key management compensation

	Year ended December 31,	
	2019	**2018**
	RMB'000	**RMB'000**
Salaries	11,676	15,124
Discretionary bonuses	7,600	1,200
Share-based compensation	428,811	10,464,196
Employer's contribution to pension schedule	1,159	989
	449,246	10,481,509

40 Events after the reporting period

An outbreak of Coronavirus Disease 2019 ("COVID-19") has been emerged since January 2020, and has been declared as a Public Health Emergency of International Concern on January 30, 2020 and subsequently characterized as a pandemic on March 11, 2020 by the World Health Organization. The Group has been paying close attention to the development of the COVID-19 outbreak and has conducted an assessment of its impact on the financial position and operating results of the Group.

As of the date on which this set of financial statements were authorized for issue, the Group has identified some factors which might have impact on the Group's financial performance, including offline hardware sales, supply chains, and overseas demand, etc. The Group will closely monitor the latest development of the COVID-19 outbreak so as to adopt positive counter-measures to overcome any challenges arising and to assess the related impact to the Group on a continuous basis.

41 Financial position and reserve movement of the Company

(a) Financial position of the Company

	As of December 31,	
	2019	**2018**
	RMB'000	**RMB'000**
Assets		
Non-current assets		
Property and equipment	35	35
Investment in subsidiaries	17,854,701	13,434,702
Other assets	78	77
	17,854,814	13,434,814
Current assets		
Prepayments and other receivables	21,319,432	30,217,183
Cash and cash equivalents	58,359	5,707
	21,377,791	30,222,890
Total assets	39,232,605	43,657,704
Equity and liabilities		
Equity attributable to owners of the Company		
Share capital	388	377
Reserves (Note 41(b))	39,223,583	39,159,983
Total equity	39,223,971	39,160,360
Liabilities		
Current liabilities		
Other payables and accruals	8,634	4,497,344
	8,634	4,497,344
Total liabilities	8,634	4,497,344
Total equity and liabilities	39,232,605	43,657,704

The balance sheet of the Company was approved by the Board of Directors on March 31, 2020 and was signed on its behalf:

Lei Jun

Lin Bin

41 Financial position and reserve movement of the Company (Cont'd)

(b) Reserve movement of the Company

	Treasury shares	Share premium	Share-based compensation reserve	Currency translation differences	Capital reserve	Accumulated losses	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2019	–	43,851,282	5,436,038	985,481	25,950	(11,148,160)	9,392	39,159,983
Purchase of own shares	(2,932,111)	–	–	–	–	–	–	(2,932,111)
Cancelation of shares	1,879,289	(1,882,527)	–	–	–	–	–	(3,238)
Release of ordinary shares from Share Scheme Trust	–	167,447	(139,015)	–	–	–	–	28,432
Employees share-based compensation scheme:								
- value of employee services (Note 28)	–	–	2,127,967	–	–	–	–	2,127,967
- exercise of share options and restricted stock units (Note 28)	–	1,442,634	(1,184,767)	–	–	–	–	257,867
Currency translation differences (Note (a))	–	–	–	508,584	–	–	–	508,584
Profit for the year	–	–	–	–	–	76,099	–	76,099
At December 31, 2019	(1,052,822)	43,578,836	6,240,223	1,494,065	25,950	(11,072,061)	9,392	39,223,583

41 Financial position and reserve movement of the Company (Cont'd)

(b) Reserve movement of the Company (Cont'd)

	Share premium	Share-based compensation reserve	Currency translation differences	Capital reserve	Accumulated losses	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2018	742,760	3,816,153	(3,495,173)	25,950	(150,421,487)	9,392	(149,322,405)
Issuance of ordinary shares	9,827,146	–	–	–	–	–	9,827,146
Issuance of ordinary shares relating to initial public offering, net of underwriting commissions and other issuance costs	23,248,593	–	–	–	–	–	23,248,593
Release of ordinary shares from Share Scheme Trust	933,592	(841,640)	–	–	–	–	91,952
Conversion of convertible redeemable preferred shares to ordinary shares	151,100,334	–	–	–	–	–	151,100,334
Employees share-based compensation scheme:							
- value of employee services (Note 28)	–	2,461,525	–	–	–	–	2,461,525
Acquisition of additional equity interests in non-wholly owned subsidiaries	230,899	–	–	–	–	–	230,899
Currency translation differences (Note (a))	–	–	(1,098,818)	–	–	–	(1,098,818)
Share premium set off the accumulated losses and other reserves	(142,232,042)	–	5,579,472	–	136,652,570	–	–
Profit for the year	–	–	–	–	2,620,757	–	2,620,757
At December 31, 2018	43,851,282	5,436,038	985,481	25,950	(11,148,160)	9,392	39,159,983

Note:

(a) Foreign currency translation reserve represents the difference arising from the translation of the financial statements of the Company as its functional currency in US$, different from its presentation currency as RMB.